



 **REPORT THE CYCLE OF SCANDAL AT FOR-PROFIT COLLEGES**

# Truman, Eisenhower, and the First GI Bill Scandal

**JANUARY 24, 2017 — DAVID WHITMAN**

*This report is the first in a TCF series—The Cycle of Scandal at For-Profit Colleges—examining the troubled history of for-profit higher education, from the problems that plagued the post-World War II GI Bill to the reform efforts undertaken by the George H. W. Bush administration.*

The 1944 GI Bill is rightly remembered as one of the most effective social policy programs in U.S. history. Thanks to the GI Bill, millions of soldiers returning from World War II had the opportunity to enroll in college or job-training programs, and had access low-interest loans to buy homes. What has been largely forgotten, however, is that the GI Bill also led to systematic abuses at for-profit schools—schools that sprang up to take advantage of what was essentially a government educational voucher with no strings attached.

Congress and the Truman and Eisenhower administrations soon realized that strings were needed.

Treating the Veterans Administration (VA) as their primary funder, opportunistic entrepreneurs established schools and set their tuition rates at the maximum amount that the VA would pay. Many schools falsified their expenditure data and attendance records, overcharged for supplies, and billed the VA for students who were not even enrolled, all in order to tap taxpayers for every penny they could get. While the GI Bill helped millions of returning veterans go to college, it also fed an explosion of misleading advertising, predatory recruitment practices, sub-standard training, and outright fraud in for-profit education. Tens of thousands of veterans were trained for jobs in overcrowded fields in which there were no actual job openings.<sup>1</sup>

Sadly, veterans were sometimes complicit in these abuses. In one scam, veterans would enroll in TV repair courses, and then drop out as soon as they got the free television that came with enrollment.<sup>2</sup> Since there were no loans involved, if a veteran got a few classes and a TV out of the GI Bill, it was at no cost to him; he had no reason to care—and often was unaware—that the taxpayer paid a high price. School owners, meanwhile, also had no accountability to taxpayers, running a federally funded school that was a surefire business proposition. In the five years that followed President Roosevelt's signing of the GI Bill, the total number of for-profit schools in the United States tripled,<sup>3</sup> even while thousands closed.<sup>4</sup> More veterans actually used their educational benefits under the GI bill to attend for-profit vocational schools than to enroll at public and nonprofit colleges.<sup>5</sup>

It did not take long before newspaper and magazine exposés about unscrupulous trade school owners and deceived veterans started popping up all over the country. The *Saturday Evening Post* ran a piece in 1946 titled “Are We Making a Bum Out of GI Joe?” Other newspapers and magazines ran stories with headlines like “How Many Wrongs Make a GI Bill of Rights?” and “There’s a Shell Game at Every Turn for a Man with an Eagle on His Lapel.”<sup>6</sup> *Associated Press* reporter Rowland Evans, who would soon team up with Robert Novak to write a long-running conservative syndicated opinion column, reported in 1949 that the VA wanted “curbs on the enrollment of veterans in fly-by-night ‘proprietary’ schools... If this isn’t done, ‘taxpayers are to be bled white,’ says H. V. Stirling, the man who runs the vast GI Bill Education program.”<sup>7</sup>

# WHAT'S WRONG WITH VETERANS' SCHOOLS?

## What a Visitor Will Find

If you go to 837 North La Salle Street you may have a little difficulty finding the school. The hallway of this not too prepossessing building is lined with signs in Japanese, in English and in mixed English and Japanese. You may notice that the place contains the offices of the National Chick Sexing Association and the business premises of the Sagano Brothers—Distributors of Eggs. But do not worry. The school of higher learning, the citadel of chicken-sexing knowledge, is also there, and fully equipped. The state has seen to that.

It made Mr. George Sagano file a complete report, just to make sure he had adequate educational equipment. So Mr. Sagano sat down and carefully tabulated his educational supplies:

- 2 tables
- 8 chairs
- 8 lamps
- Chicken boxes
- Blackboard, and
- Accessories.
- Live chicks used to work upon.

On this basis of the foregoing, the sovereign State of Illinois, on October 14, 1946, designated the National Chick Sexing School as an appropriate institution "qualified and equipped to furnish education and training to World War II veterans."

A DESCRIPTION OF HOW ONE STATE APPROVED SCHOOLS FOR THE GI BILL, FROM AN ARTICLE IN COLLIER'S WEEKLY, MAY 1, 1948.

## Congress Takes Notice of GI Bill Abuse

In 1949, Senator Elbert Thomas (D-UT), chairman of the Senate Committee on Labor and Public Welfare, asked Carl Gray, the VA administrator, to prepare a report on education and training under the GI Bill. Gray's 200-page report, released in January 1950, was a sharp indictment of the for-profit industry.<sup>8</sup> The Gray Report found that, of the 1,237 schools identified by the VA under the GI Bill as being involved with some irregularity or questionable practices, 963 schools were for-profit institutions. Of the 329 schools that had lost their accreditation, 299 of the schools, more than 90 percent, were for-profit schools.<sup>9</sup>

President Truman's response to the Gray Report was swift and pointed. In a Special Message to Congress, Truman stated that "in a good many instances veterans have been trained for occupations for which they are not suited or for occupations in which they will be unable to find jobs when they finish their training . . . each time a course of trade and vocational training does not contribute in a substantial way to the occupational readjustment of a veteran, it constitutes a failure. . . . Such failure is costly to the veteran, to his family, and to the Nation."<sup>10</sup> It was necessary, Truman said, that steps "be taken to give greater assurance that every trade and vocational course under the [GI Bill] will provide a good quality training and will in each instance help a veteran to complete his occupational readjustment and find satisfactory employment."

Congress passed a joint resolution in 1950 launching the House Select Committee to Investigate Educational, Training, and Loan Guaranty Programs under the GI Bill, a thirteen-month effort. The committee's files of hearings, commissioned reports, and case files on 258 proprietary (for-profit) schools measured twenty-five feet long stacked side by side, and resulted in a 222-page committee report in February 1952. The congressional committee also commissioned the General Accounting Office (GAO, now referred to as the Government Accountability Office) to survey veterans training programs in six states. The GAO concluded that newer proprietary schools were using "promotional plans and extensive advertising campaigns, which were often misleading and laden with extravagant, unjustifiable claims . . . conducted for the express purpose of attracting veterans."<sup>11</sup>

The February 1952 report of the House select committee concluded that many for-profit schools "offered training of doubtful quality" in fields where little or no employment opportunities existed.<sup>12</sup> Pointing to the approximately fifty court cases in which schools and their executives had been convicted of fraud and abuse, as well as ninety similar pending cases, the report stated

that “exploitation by private schools has been widespread” and that there was “no doubt that hundreds of millions of dollars [had] been frittered away on worthless training.”<sup>13</sup> “Under the policies of the Veterans’ Administration,” the committee concluded, new for-profit “schools were allowed to virtually write their own charges against the Treasurer of the United States without regard to the amount, type, and quality of service rendered.”<sup>14</sup>

## Union Calendar No. 426

82D CONGRESS <i>2d Session</i>	}	HOUSE OF REPRESENTATIVES	}	REPORT No. 1375
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### INVESTIGATING EDUCATION AND TRAINING PROGRAMS UNDER GI BILL

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FEBRUARY 14, 1952.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed, with illustrations

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Mr. TEAGUE, from the House Select Committee To Investigate Educational Program Under GI Bill, submitted the following

[CLICK HERE TO VIEW THE FULL TEAGUE REPORT.](#)

The chairman of the House select committee was Olin “Tiger” Teague, a no-nonsense Democrat from Texas who would go on to earn the title of “Mr. Veteran” for his decades-long domination of veterans policy as chairman of the House Committee on Veterans’ Affairs. Teague was a fiscal conservative and Southern Democrat who later opposed much of Great Society initiatives of the 1960s (today, he almost certainly would have been a member of the Republican Party). In World War II, Teague lost most of his left foot to enemy gunfire and won three Silver Stars, three Bronze Stars, and Three Purple Hearts. He believed that generous educational benefits should be reserved for wounded veterans, and strictly limited for service members who served in peacetime. During the next two decades, he fiercely opposed efforts, led by fellow Democrats, to expand educational benefits for GIs who did not see combat.<sup>15</sup>

Teague, with the full support of the Truman administration and later the Eisenhower administration, led a bipartisan crackdown on for-profit schools. In 1948, Congress banned the use of GI educational benefits for hobby or recreational courses. Two years later, representatives authorized the VA to deny access to for-profit schools that had been in existence for less than a year, to impose restrictions on those where fewer than one-fourth of enrolled students paid their own tuition, and to prohibit the expansion of programs that would not likely lead to a job.<sup>16</sup>

For Teague, the 1950 legislation was only the start of a bipartisan crackdown on for-profit schools. The original GI Bill of Rights for World War II veterans was drawing to an end, and by 1952 Congress and the nation were debating how to extend educational benefits to GIs during the Korean conflict. The 1952 Korean GI Bill, which passed the House by a vote of 361 to 1,<sup>17</sup> included the first “85–15” rule aimed solely at for-profit schools. Under the 85–15 rule, the VA was barred from approving and paying for non-accredited, non-degree courses for veterans at proprietary schools if more than 85 percent of students were veterans.<sup>18</sup> (The Teague select committee had recommended a higher eligibility threshold at for-profits of a minimum of 25 percent enrollment of non-veterans.)

Teague’s biggest triumph was to kill off the proprietary schools’ golden goose: direct tuition payments from the federal government. Instead of making tuition payments to schools, the 1952 Korean GI Bill had the VA make monthly payments to veterans, out of which the veteran had to cover not only the costs of tuition, but also books, supplies, fees, and other living expenses related to their education and training.<sup>19</sup> With the elimination of easy access to direct tuition payments, and the introduction of competitive funding needs of veterans, the for-profit sector stopped expanding almost overnight. In ensuing decades, Teague would successfully beat back three efforts in Congress—led by Democrats—to renew direct tuition payments.<sup>20</sup> In 1972, twenty years after the passage of the 1952 Korean GI Bill, Senator Strom Thurmond (R-SC) would tell an advocate of restoring direct payments to schools: “That was tried . . . in 1944, and it was on the books until 1951, and there were so many abuses that it had to be changed to the present system of just allotting so much for a student.”<sup>21</sup>

The issues that Congress grappled with in 1952 are, in many respects, the same struggles that today’s lawmakers are having: given the financial incentives that for-profit school owners have to enroll as many students as possible and to spend as little as possible on their education, how can government aid be designed so that it encourages enrollment of qualified students in quality career-training programs? A new strategy included in the 1952 legislation was to involve private accrediting agencies, which colleges themselves had created years before as a voluntary system of quality assurance through peer review.

## Accrediting Agencies as Arbiters of Quality

Beginning with the 1952 Korean GI Bill, and repeated in dozens of subsequent federal student aid statutes, Congress required the U.S. commissioner of education, then the nation’s top-ranking federal education official, to publish a list of agencies and associations deemed to be “reliable authorities” on the quality of training offered by an educational institution. The approving agencies in each state and the VA could, in turn, rely on the judgments of these private groups to determine which institutions were worthy of federal aid.<sup>22</sup>

With the explosive growth of for-profit schools, the VA was overwhelmed and understaffed when it came to processing veterans’ educational benefits, as well as monitoring and enforcing regulations. States, likewise, had been similarly unprepared for the flood of schools and programs unleashed by the 1944 GI Bill.<sup>23</sup> Deferring to accrediting agencies seemed like a convenient, low-cost solution that kept the government out of the business of directly setting quality standards.

The U.S. Office of Education, however, was not in a position to undertake a detailed review of accrediting agencies to determine which ones could be deemed reliable authorities on academic quality. So the commissioner of education, Earl McGrath, decided to simply publish the list of accrediting bodies then listed in the Office of Education's directory, which at the time omitted several fledgling accrediting associations for proprietary trade schools. McGrath reportedly feared that including these might open the door to diploma mills, along with legitimate trade schools. It was not until the late 1950s that the trade schools' accrediting agencies were added to the Office of Education's list of recognized authorities.<sup>24</sup>

Federal reliance on accreditors was an awkward fit from the start, and is still controversial today, especially as it relates to for-profit schools. As Terrel Bell, the U.S. commissioner of education in the Nixon and Ford administrations and Ronald Reagan's first secretary of education, later summed up: "Some of the associations were creatures of the owners, and their policies were established in a self-serving way, so that the institutions could qualify for federal assistance."<sup>25</sup> Chester Finn, a Reagan administration appointee, has observed that accreditation operated like a "private club competent to pass on its own candidates for membership but scarcely equipped to police their handling of the government's money and certainly not designed to regulate profit-seeking institutions that reject many of its norms."<sup>26</sup>

## A General Becomes President

After the Korean War ended in July 1953, the issue of how to provide educational benefits and pensions to those serving in peacetime took on new urgency. In January 1955, President Dwight Eisenhower established a Commission on Veterans' Pensions to study the issue, appointing his friend, the famed General Omar Bradley, as chairman of the presidential commission. The central recommendation of the April 1956 Bradley Commission Report was that while peacetime soldiers should continue to receive medical care and employment assistance, their "military service does not involve sufficient interruption to the educational progress of servicemen to warrant a continuation of a special educational program for them." In times of war or peace, the commission declared, military service "is an obligation of citizenship and should not be considered inherently a basis of future Government benefits."<sup>27</sup>

The Bradley Commission Report's recommendations squarely matched up with Eisenhower's beliefs—and over the next four years, Eisenhower teamed up with Congressman Teague to successfully block bills by Senate Democrats to provide generous educational benefits to Cold War veterans. In his final budget message to Congress, Eisenhower warned that providing education benefits for peacetime soldiers could undermine the services' efforts to retain career servicemen by encouraging soldiers to leave the military to attend college. Education benefits, Eisenhower said, "cannot be justified by conditions of military service and are inconsistent with the incentives which have been provided to make military service an attractive career for capable individuals."<sup>28</sup>

The Bradley Commission Report also included a damaging analysis of for-profit schools. In the wake of increased educational benefits for veterans, the Commission found "thousands of new proprietary schools were established" and, at these institutions, "many veterans enrolled in courses leading to occupational fields where the employment prospects were far from good."<sup>29</sup> The

Commission had no reliable information “on the number of veterans graduated from profit schools who were actually placed in jobs for which they were trained, but it was estimated in January 1951 that of the 1,677,000 veterans who attended profit schools only 20 percent completed their courses” and that “much of the training in profit schools was of poor quality.”<sup>30</sup> Furthermore, the government “was overcharged for much of the training in schools below college level, particularly in profit schools.”<sup>31</sup> Soon, the Eisenhower administration launched the first federal effort to list and shame “diploma mills”—correspondence schools that awarded “degrees” by mail without requiring students to meet real educational standards.<sup>32</sup>

While Eisenhower staunchly opposed providing generous educational benefits to veterans who had served in peacetime, he was not opposed to expanding federal support for students more generally to go to four-year colleges and universities to study science, math, engineering, and foreign languages. In October 1957, the Soviet launch of the Sputnik I satellite precipitated a round of national soul-searching, both about whether the Soviet Union had outdistanced the United States in the space race and if American students were lagging behind their Soviet counterparts. In January 1958, Eisenhower proposed to Congress that it create a four-year “emergency” program to strengthen national security that would include a program of 40,000 federal scholarships for low-income students to go to college, with scholarships earmarked for students with good preparation or high aptitude in science and mathematics.<sup>33</sup>

Eight months after Eisenhower made his proposal, he signed into law the National Defense Education Act, which created the National Defense Student Loan (NDSL) Program, the first federal student loan program to provide direct loans capitalized with funds from the U.S. Treasury. Funds for the loan program were given to schools, which were then tasked with distributing the dollars to students with financial need in the form of low-interest loans with an emphasis on improving science, mathematics, engineering, and foreign language preparation. In the aftermath of the proprietary school scandals of the GI Bill, Eisenhower and Congress limited the funding to public and nonprofit colleges.<sup>34</sup> The better part of a decade would pass before Congress, at the behest of a Democratic administration, would open the door to using federal student loans at for-profit schools. When Congressman William Ford (D-MI), the future chairman of the House Education and Labor Committee, arrived in Washington after being elected in 1964, he found that Congress was still “broiling with anger” about the misuse of federal student aid dollars. The anger, Ford recalled, “remained from the period of the much-publicized abuses of the GI bill.”<sup>35</sup>

## Timeline of For-Profit Higher Education

Scroll through the below timeline to view the history of for-profit higher education.

### Notes

1. See the findings of the House Select Committee to Investigate Educational, Training, and Loan Guaranty Programs Under the GI Bill, House of Representatives, 82nd Cong., 2nd sess. February 1952, p. 3. Hereafter referred to as the “Teague Report.”
2. In 1949, 546,000 veterans made course changes, roughly twenty times as many veterans who made courses changes in 1946 (26,000). James Bowman et al., “Educational Assistance to Veterans: A Comparative Study of Three GI Bills,” Educational Testing



Service, September 1973, reprinted in *Final Report on Educational Assistance to Veterans: A Comparative Study of Three G.I. Bills*, Committee on Veterans' Affairs, U.S. Senate, Senate Committee Print No. 18, September 20, 1973, 93rd Cong., 1st sess., 171.

3. The Teague Report, 12.

4. By some accounts, at least 9,000 proprietary schools and as many as 13,000 proprietary schools participated, however briefly, in the training of veterans in the five years after the signing of the GI Bill. See the testimony of Harold Orlans, a researcher at the National Academy of Public Administration Foundation, in *Proprietary Vocational Schools*, Special Studies Subcommittee of the House Committee on Government Operations, 93rd Cong., 2nd Sess, July 1974, 56. The January 1950 Gray Report by Carl Gray, the VA Administrator, reported that there were more than 7,500 for-profit institutions on VA approval lists in 1949. Cited in A.J. Angulo, *Diploma Mills* (Baltimore, Md.: Johns Hopkins University Press, 2016), 64.

5. While 2.2 million vets went to four-year colleges on the GI Bill, more than three million GIs used their educational benefits to enroll in trade and technical and business schools (2.4 million vets), with another 637,000 veterans taking correspondence courses. Teague Report, 92.

6. Bowman et. al, *Final Report on Educational Assistance to Veterans*, 114.

7. Rowland Evans Jr., "VA Would Check Some GI Schools," *Washington Post*, August 21, 1949.

8. A. J. Angulo, *Diploma Mills*, 63–65.

9. Paul Starr, *The Discarded Army: Veterans after Vietnam* (New York: Charterhouse, 1973), 236.

10. "Special Message to the Congress Transmitting Report on the Training of Veterans Under the Servicemen's Readjustment Act," February 13, 1950, *Public Papers of the Presidents, Harry S. Truman, 1945–1953*. Available at the Harry S. Truman Library & Museum, The American Presidency Project, <http://www.trumanlibrary.org/publicpapers/index.php?pid=656>.

11. Quoted in Teague Report, February 1952, 30.

12. Ibid, 3, 12.

13. Ibid, 3, 12.

14. Ibid, 30.

15. See Mark Bolton, *Failing Our Veterans: The G.I. Bill and the Vietnam Generation* (New York: New York University Press, 2014), 35–42, 60–103.

16. Barbara McClure, "Veterans' Education Assistance Programs," Congressional Research Service, 86-537 EPW, January 31, 1986, 8. The bill prohibited GI Bill payments for new courses at for-profit schools if state agency responsible for overseeing GI Bill schools determined that the occupation for which the course was intended to provide training was crowded in the State and that existing training facilities were adequate.

17. Bolton, *Failing Our Veterans*, 42.

18. Barbara McClure, "Veterans' Educational Assistance Programs," 11.

19. Ibid. Also see The Teague Report, 1.

20. Tim O'Brien, "The Battle of the GI Bill: Sen. Hartke v. Rep. Teague," *Washington Post*, July 21, 1974, C4.

21. *Educational Benefits Available for Returning Vietnam Era Veterans*, Hearings on S.2161 and Related Bills, Part I, Subcommittee on Readjustment, Education, and Employment, Senate Committee on Veterans' Affairs, 92nd Cong., 2nd Sess., March 29, 1972, 485.

22. Bowman et al., *Educational Assistance to Veterans*, 177.

23. "Many State departments of education were not adequately staffed in 1944 to perform the regular functions assigned to them by State law, not to mention the new functions assigned to them by [the G.I. Bill]. Standards for the approval of institutions and establishments varied widely in 1944 and in some States were practically nonexistent." *Veterans' Benefits in the United States*, The



President's Commission on Veterans' Pensions, Volume III, Staff Report No. IX-B, 1956: "Readjustment Benefits: Education and Training, and Employment and Unemployment," 19.

24. Charles M. Chambers, "Federal Government and Accreditation," in *Understanding Accreditation: Contemporary Perspectives on Issues and Practices in Evaluating Educational Quality*, ed. Kenneth E. Young, Charles M. Chambers, H. R. Kells and Associates (London: Jossey-Bass, 1983), 243-44.

25. Terrel H. Bell, "The Federal Imprint," *External Influences on the Curriculum: New Directions for Community Colleges* 64 (Winter 1988), 12.

26. Chester E. Finn, Jr., "In Washington We Trust, Federalism and the Universities: The Balance Shifts," *Change* 7, no. 10 (Winter 1975/1976): 29.

27. The President's Commission on Veterans' Benefits, "Veterans' Benefits in the United States," April 1956, 10. Available at the Veterans Law Library, [http://www.veteranslawlibrary.com/files/Commission\\_Reports/Bradley\\_Commission\\_Report1956.pdf](http://www.veteranslawlibrary.com/files/Commission_Reports/Bradley_Commission_Report1956.pdf).

28. President Dwight D. Eisenhower, "Annual Budget Message to Congress: Fiscal Year 1962," January 16, 1961, *Public Papers of the Presidents*, The American Presidency Project.

29. "Veterans' Benefits in the United States," 296.

30. Ibid 296-297.

31. Ibid 291.

32. In October 1959, Arthur Flemming, the secretary of health, education, and welfare, warned of the evils of degree mills at a press conference and charged the U.S. commissioner of education with preparing a list of degree mills for public release at a subsequent press conference. The preliminary list, released by the U.S. Office of Education in April 1960, named more than thirty organizations as degree mills. See "Pollution in Higher Education: Efforts of the U.S. Office of Education in Relation to Degree Mills," Bureau of Postsecondary Education, U.S. Department of Health, Education, and Welfare, March 1974, 3.

33. President Dwight D. Eisenhower, "Special Message to Congress on Education," January 27, 1958, *Public Papers of the Presidents*, The American Presidency Project.

34. Robert Shireman, "The Covert For-Profit: How College Owners Escape Oversight through a Regulatory Blind Spot," The Century Foundation, October 6, 2015, 4, <https://tcf.org/content/report/covert-for-profit/>.

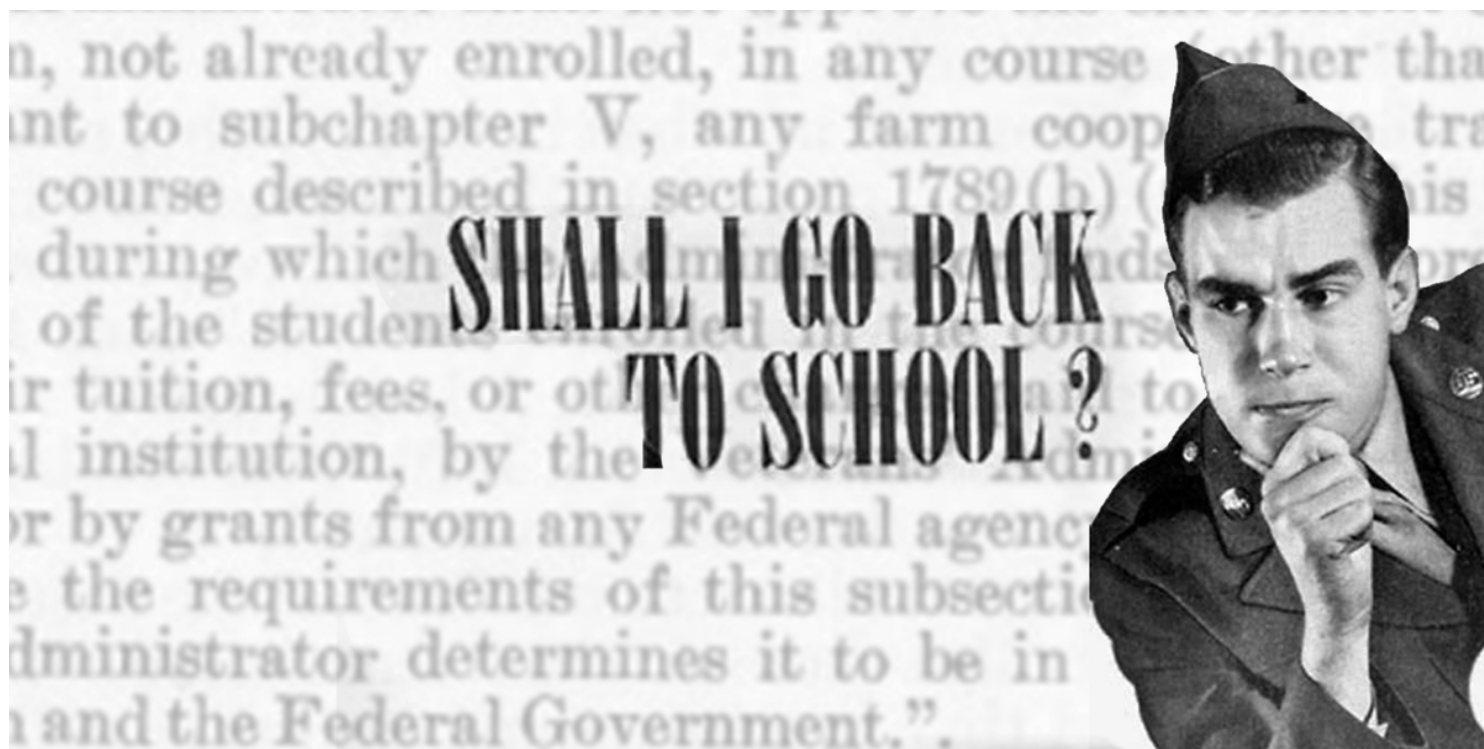
35. *Hearings on the Reauthorization of The Higher Education Act of 1965: Program Integrity*, House Committee on Education and Labor, Subcommittee on Postsecondary Education, 102nd Cong., 1st Sess., Serial No. 102-39, May 30, 1991, 427.



## David Whitman, Contributor

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REPORT THE CYCLE OF SCANDAL AT FOR-PROFIT COLLEGES

# Vietnam Vets and a New Student Loan Program Bring New College Scams

FEBRUARY 13, 2017 — DAVID WHITMAN

*This report is the second in a TCF series—The Cycle of Scandal at For-Profit Colleges—examining the troubled history of for-profit higher education, from the problems that plagued the post-World War II GI Bill to the reform efforts undertaken by the George H. W. Bush administration.*

The return home of thousands of war veterans can bring out the worst in for-profit higher education. The epidemic of fraud and abuse by trade schools that enrolled World War II veterans under the GI Bill, which prompted intense scrutiny by Congress and Presidents Harry S. Truman and Dwight Eisenhower, is a prime example.

For the most part, the reforms Congress had adopted in creating college benefits for veterans of the Korean and Vietnam wars seemed to work, and the 1950s and 1960s were relatively scandal-free.<sup>1</sup> In a November 1971 letter, Donald Johnson, President Richard Nixon's appointee leading the Veterans Administration (VA), went so far as to declare that "most of the areas of abuse detected in the earlier World War II program were eliminated."<sup>2</sup>

Unfortunately, Johnson's optimism proved premature. The extension of GI Bill benefits not just to veterans but to active duty servicemen fed a rapid expansion of "correspondence schools," a more primitive and less interactive version of today's online education, conducted through the U.S. Mail (see Figure 1). The growth in this for-profit education industry was spurred in large part by the fact that soldiers and veterans could enroll while also holding a full-time job. A report ordered by Congress warned in September 1973 that "private profit making home study schools" were using misleading advertisements and "sophisticated sales techniques" to take advantage of Vietnam veterans and servicemen, who subsequently dropped out at high rates.<sup>3</sup> The Trump University scam used similar sales techniques.

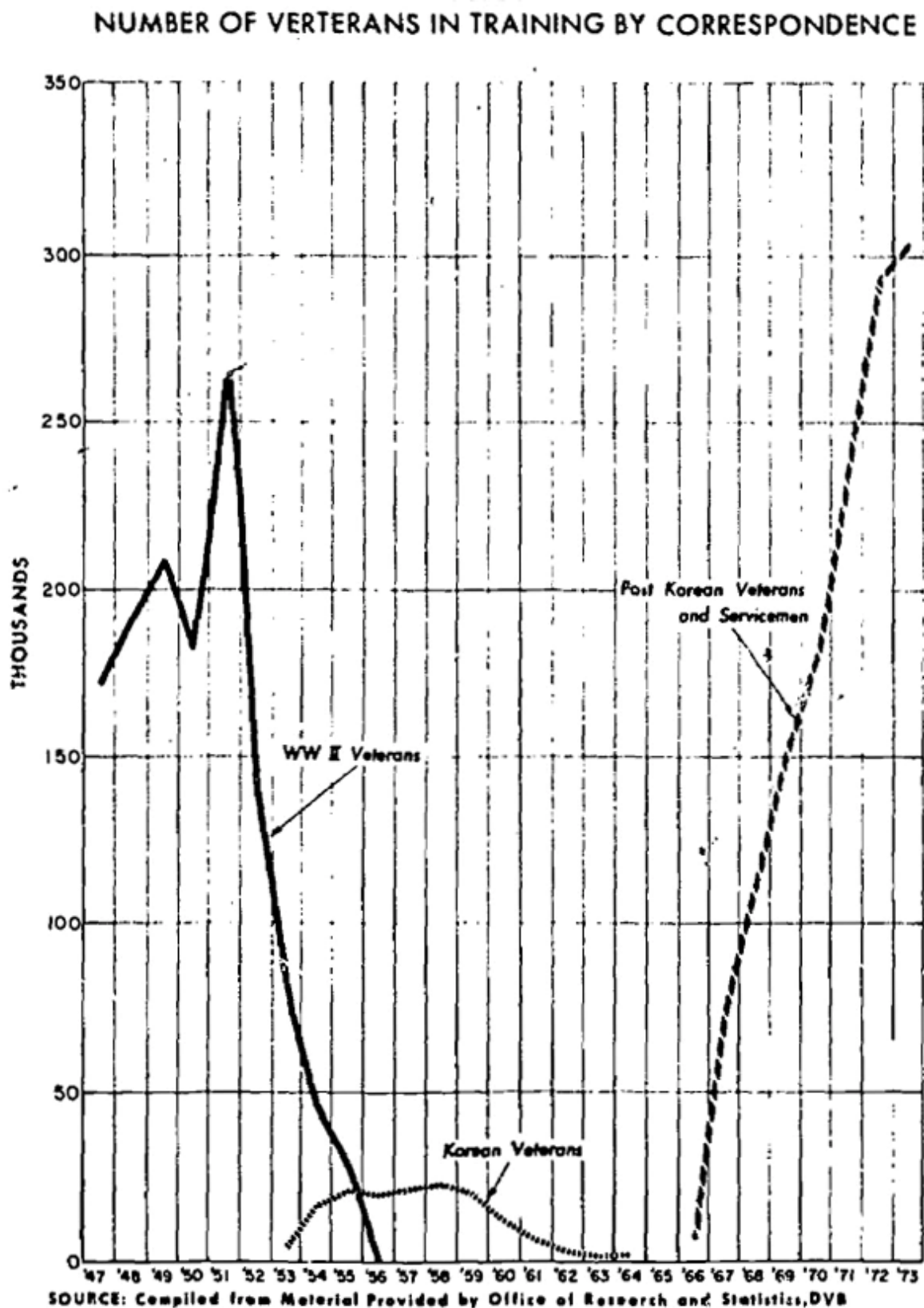


FIGURE 1. NUMBER OF VETERANS IN TRAINING BY CORRESPONDENCE. SOURCE: GI BILLS REPORT.

Vietnam veterans were not the only ones eligible for federal aid to enroll in these schools. As part of the War on Poverty, President Lyndon Johnson had expanded federal student aid programs to millions of Americans who had not served in the military, creating a new and growing pool of federal dollars for schools to tap. The convergence of these two markets—Vietnam

veterans, and the middle- and low-income Americans—created the “perfect storm” for profit-making shenanigans. Harold Orlans, a researcher at the National Academy of Public Administration Foundation observed in 1974 “a pile of money, like a pile of compost, can nourish a lot of worms. That happened when the GI bill provided some \$14.5 billion for the education of World War II veterans, and it happened again during the last decade when over \$25 billion in student aid was provided under various Federal programs.”<sup>4</sup>

By the early 1970s, defaults in the relatively new guaranteed student loan program were becoming a national issue. When Terrel Bell, the Nixon and Ford appointee responsible for administering the program, was hauled before Congress in 1976 to explain why his agency was not doing a better job of reducing defaults, he pushed back: “It must be kept in mind that when the floodgates were opened in 1968 to allow virtually every kind of institution operating on an interstate basis to lend under the program—public, private, profit, nonprofit, noncollegiate, and correspondence schools—we had only 50 persons on the staff.”<sup>5</sup> The mention of “profit” schools was no accident: by 1975, for-profit schools accounted for most of the defaults in the loan program.<sup>6</sup>

## THE CYCLE OF SCANDAL AT FOR-PROFIT COLLEGES

Read the series of papers focusing on the repeated for-profit college scandals of the past sixty years.

When President George H. W. Bush “Cracked Down” on Abuses at For-Profit Colleges

The Reagan Administration’s Campaign to Rein In Predatory For-Profit Colleges

Vietnam Vets and a New Student Loan Program Bring New College Scams

Truman, Eisenhower, and the First GI Bill Scandal

The For-Profit College Story: Scandal, Regulate, Forget, Repeat

The GOP Has a Long History of Cracking Down on “Sham Schools”

## Congress Remembered, Then Congress Forgot

In the original proposal for what became the landmark Higher Education Act of 1965, the Johnson Administration included for-profit trade schools as potential participants in the same federally guaranteed student loan program as traditional colleges. Seeking to avoid a repeat of past scandals, Congress objected, and instead created two programs.<sup>7</sup> That way, their logic went, the size and parameters of each program could be adjusted separately as needs or problems emerged.<sup>8</sup>

Just three years later, Congress merged the vocational school loan program into the Higher Education Act. Because this step effectively eliminated any cap on the growth of for-profit colleges financed by federal loans, it was the floodgate-opening that Bell, the top education official to Presidents Nixon, Ford, and Reagan, blamed for the default crisis. As Bell accurately characterized, it proved to be an invitation for excess.

Recruiters at for-profit schools quickly resumed old habits honed under the GI Bill. Access to loans backed by the government, which were called Federally Insured Student Loans (FISL), was like manna from heaven; recruiters could market their schools as financially backed by the federal government, with no risk to private lenders wary of loaning thousands of dollars to students with few assets. As one salesman declared, “I could go down in the ghetto and stand on the corner and enroll all kinds of people if it is free. He doesn’t care if the course is airlines, insurance adjusting, hotel-motel management, or what, if it is free, going to be paid for by the government and you can get him a job. He would have to be crazy not to do this. This is a salesman’s dream.”<sup>9</sup> A memo to salesmen from a regional sales manager for Bell and Howell’s vocational schools gave this motivational pep talk: “Get up every morning and say to yourself, ‘I have the product and the way to buy it. I have no money problems because I have FISL . . . I’m going to sell everyone on FISL.’”<sup>10</sup>

Recruiting new students became so easy that school owners no longer had to worry much about the loss of income from dropouts. As the CEO of LTV Educational Systems explained, “the replacement of a drop-out with a new FISL-financed enrollment became easy, and a new way of life overnight in the business.”<sup>11</sup> The Federal Trade Commission (FTC) found that,

*the availability of federal loans and grants has worsened the shoddy recruitment, advertising, enrollment practices of the proprietary schools industry. In conjunction with deceptive advertising, high pressure sales tactics and misrepresentations of course difficulty and content, FISL monies have allowed marginal schools to add thousands of students to their rolls without regard for proper career training. Advertisements placed in the media and “canned” sales pitches entice students with claims of federal grants or subsidies. Often the mere mention of the federal government to potential students implies, and is understood as, government inspection and approval of course content and job placement capabilities.*<sup>12</sup>

By 1973, the administrator of the guaranteed loan program at the Department of Health, Education, and Welfare (HEW) had caught on and warned in internal memos of the rise of “FISL factories.”<sup>13</sup> For example, Commercial Trades Institute had just one student with a federal loan in 1970, but had 50,906 such students in 1973. The number at DeVry Institute of Technology rose from 2,663 to 69,934. At Advance Schools, a home-study correspondence school, there was a sixty-seven-fold increase, from 1,209 to 80,891 students with federal loans.<sup>14</sup>

## Major Newspapers Feature Stories of Scam Schools and Defrauded Students

More than a few newspaper reporters went undercover to expose schools by testing the patently phony claims schools made. In a front-page *Wall Street Journal* June 1970 story headlined “Many Computer Schools Charged with Offering a Useless Education,” reporter Dan Rottenberg took the twelve-question “entrance exam” for the computer programming course at Bryant and Stratton College in Chicago by deliberately answering most of the questions incorrectly. Within a week, he was nonetheless visited at home by a salesman trying to enroll him.<sup>15</sup>



In 1971, the *Washington Post* ran a three-part series by Carl Bernstein, who would soon team up with Bob Woodward to break the Watergate story. Bernstein focused on career schools in the Washington, D.C., areas, such as the Cinderella Career and Finishing School, which ran ads to lure young women to enroll on the false promise that they would obtain jobs as airline stewardesses and retail buyers.<sup>16</sup> Bernstein found that oversight of the schools was in many cases nonexistent or laughably lax. “In the District of Columbia and at least 20 states,” Bernstein noted, “career schools are operated without any regulation by local law.”<sup>17</sup>

## ***Failing the Teacher*** Many Computer Schools Charged With Offering A Useless Education

Critics Cite Lack of Books,  
Machines, Qualified Staff;  
Employers Question Value  
Unflunkable Aptitude Tests



LEFT: THE WALL STREET JOURNAL (JUNE 10, 1970). RIGHT: THE WASHINGTON POST (1971).

Bernstein was particularly critical of the federal government’s reliance on accrediting agencies, in which the seal of approval, “accredited by an agency approved by the U.S. Office of Education,” is “bestowed by the same businessmen who operate the private schools, rather than by experts in the vocational fields in which they offer courses.”<sup>18</sup> The *Washington Post*’s editorial page lauded Bernstein’s series, saying that he had “turned up extremely disturbing cases here and elsewhere in which so-called ‘career schools’ have used deceptive advertising and misleading high-pressure sales pitches to entice people into fruitless programs. What’s worse, the articles pointed up an almost total lack of regulation of these schools.”<sup>19</sup> (In a piece of historical irony, the *Washington Post* would later purchase a for-profit college company and editorialize against stronger government regulation.)<sup>20</sup> At the time, many conservatives shared the *Washington Post*’s disenchantment with private accrediting agencies. “As [student aid] programs have grown and proprietary and vocational schools have gained access to them,” Chester Finn Jr, a future Reagan appointee, wrote in 1975, “the accrediting system has failed to organize and conduct itself in ways calculated to prevent the abuses and mishaps that have become endemic.”<sup>21</sup>

Carl Bernstein’s series was just the start of a slew of newspaper investigations into the for-profit industry. The *Boston Globe*’s famed “Spotlight” investigative reporting team (later immortalized in the 2015 Oscar-winning film of the same name) conducted a four-month investigation into the quality of education provided by one hundred licensed for-profit schools in Massachusetts. The central conclusion of the March 1974 series was that for-profit career schools had “evolved into a \$2.5 billion annual business in the United States largely through the use of high-pressure salesmen, questionable advertising, and the failure of government regulation at all levels.”<sup>22</sup>

The Spotlight team did a deep-dive investigation into the largest trade school in the state—ITT Technical Institute—and found that the school had been “using misleading advertising and a highly deceptive sales force . . . it has a demonstrably dismal record of training students for careers in their field of study . . . about seven out of ten students who enroll at the school drop out and only half of those who graduate are placed in jobs.”<sup>23</sup>

According to *Globe’s* report, ITT’s predatory recruiting practices included sending phony telegrams to 17,000 individuals in “ghetto neighborhoods” such as Boston’s Roxbury, informing them they had been “selected” to take a test at ITT for “our special scholarship program.” The recipients of the phony telegram had simply been selected by their zip code, not based on their achievement or promise and the “special scholarship program” consisted of four scholarships to ITT Technical, only one of which was actually awarded. The Better Business Bureau warned ITT that the massive telegram mailing was unfair, deceptive, and violated state and federal laws. Two weeks later, ITT sent out another round of the same phony telegrams.<sup>24</sup>

To experience ITT’s recruiting efforts firsthand, three members of the Spotlight team posed as prospective students. They discovered that ITT salesman used the loan application for federal aid “like personal calling cards.” One reporter who sought a guaranteed loan told his ITT salesman he had a high family income that disqualified him from receiving federal student aid, but the salesman wrote down a lower figure on the federal application to maintain the reporter’s eligibility. Another reporter on the Spotlight team deliberately answered more than half of the questions on the qualifying exam for a dental assistant training course incorrectly but was admitted anyway. “You’re pretty smart,” the ITT salesman told her.<sup>25</sup> The third reporter applied to be a salesman for ITT and learned that the director of marketing spurred on his salesman with this pithy motto: “Get the asses in the classes.”<sup>26</sup>

Meanwhile, the *Chicago Tribune* investigated Chicago-area career schools and correspondence schools. The *Chicago Tribune’s* series concluded that the industry was “filled with fast-buck operators preying on men and women who believe education is the best way to secure a future. Countless persons seeking to become airline stewardesses, nurses’ aides, TV repairmen, truck drivers, cashiers, and interior decorators are spending \$3 billion a year for correspondence and residence school courses. Many are worthless or of questionable value.”<sup>27</sup> State records, the *Chicago Tribune* reported, showed that of the 1,037 students who enrolled in a training program for travel agents in 1974, 686 students dropped out, and only 9 individuals were placed in jobs—a success rate just under 1 percent.

Home-study correspondence schools were especially profitable because of their low overhead costs and the ability to grow quickly. Advance Schools Inc., which called itself the “Cadillac” of correspondence schools, opened in October 1970 and enrolled more than 80,000 students at its peak, with a heavy reliance on FISL loans and GI educational benefits. It filed for bankruptcy in April 1975, leaving behind more than \$100 million in government guaranteed student loans outstanding (almost \$450 million in today’s dollars).<sup>28</sup>

In a follow-up to Bernstein’s reporting, a 1974 *Washington Post* series entitled “The Knowledge Hustlers” found that trade school recruiters, motivated “more by earnings than educational ideals, have gone hunting for customers in the ghetto of Atlanta, Boston and Los Angeles, in Greenville, S.C., and Shreveport, La., in the public housing of Ardmore, Okla., in the food

stamp lines of San Antonio, Tx., in the barracks of Army bases in West Germany and even in a halfway house for mental patients in the Pacific Northwest.”<sup>29</sup> The companies, the *Washington Post* series concluded “were exploiting the insured loan program to boost their enrollment revenues. In case after case, the students, whom the program was intended by Congress to benefit, have been the ones to suffer most . . . thousands of young Americans [have been lured] into debt for training opportunities that turned out to be dead ends rather than promising paths to high-paid jobs.”<sup>30</sup> Accrediting agencies, in particular, had repeatedly failed “to protect young consumers from being enticed into debt with federally insured student loans by schools that shortchange them, or from wasting their GI Bill benefits on costly, blind-alley correspondence courses. For thousands of veterans and other consumers, accreditation has in fact spelled deception.”<sup>31</sup>

One feckless accreditor highlighted by the *Washington Post* was the Association of Independent Colleges and Schools (AICS), which in 1991 became the Accrediting Council for Independent Colleges and Schools (ACICS). In June 1973, the Office of Education wrote AICS after thirteen of their accredited schools closed within eight months. The shuttered schools had closed “without delivering the educational services for which a large number of student borrowers have paid in advance from proceeds of federally insured students loans.” John Profitt, the director of the Office of Education’s accreditation and institutional eligibility, was clear that the association should have done more to spot the failing career schools. “Questionable recruitment and admissions practices have usually resulted in an alarmingly high dropout rates by these institutions prior to their closure,” Profitt wrote. “Many of these institutions lacked the financial capability to meet required student refund liabilities because of apparent mismanagement.”<sup>32</sup>

The *Washington Post* reported that one AICS-accredited school, in San Antonio, would send recruiters to the local welfare office on days when recipients came in to pick up their food stamps. The head of AICS reported in a confidential memo that “a very high percentage of these welfare recipients were migratory farm workers who could only be expected to remain in the area only short periods of time before moving on to another part of the country, automatically producing a dropout that would be very profitable to the institution.”<sup>33</sup> The agency’s failure to follow up on signs of abuse is remarkably similar to situations that led the very same accreditor to lose its federal recognition in 2016.<sup>34</sup>

In 1975, cable TV was in its infancy, and CNN, Fox News, and MSNBC didn’t exist. The three networks were the primary source of national news stories—and in August 1975, for-profit abuses of the FISL program became a bona fide national scandal when the CBS Evening News aired two special reports, two nights in a row, totaling more than fifteen minutes, on abuses by proprietary schools.<sup>35</sup>

## Congress and Multiple Federal Agencies Try to Rein In the Abuses

Most Americans take for granted the existence of consumer protection laws. But when President Nixon took office in 1969, the consumer protection movement was in its infancy. For many businesses, including for-profit colleges, the principle of caveat emptor—buyer beware—was the prevailing maxim. Throughout the 1960s, the proprietary industry joke was that “every school has a refund policy: No refunds.”<sup>36</sup> As the consumer protection movement blossomed in the early 1970s, the Federal Trade

Commission (FTC) emerged for the first time to rein in the excesses of for-profit schools. The FTC's efforts to regulate for-profit schools "had a profound impact on reforming the proprietary school industry," according to UCLA education professor Wellford Wilms. "By the early 1970s, public exposures of proprietary schools' deceptive sales and recruiting practices had become commonplace, underscoring the impotence of state regulatory law and pointing to the need for federal intervention."<sup>37</sup>

Reports of abuses at trade schools prompted the FTC, under the direction of Republican stalwarts, to launch an investigation.<sup>38</sup> In May 1972, the FTC began what would become an escalating regulatory assault on for-profit schools. That month the Commission issued a "Guide for Private Vocational and Home Study Schools," identifying practices that the Commission believed were unfair or deceptive.<sup>39</sup> In August 1973, the FTC launched a major education campaign—6 percent of the agency's budget—to warn the public about unethical and illegal practices by vocational schools. The campaign included radio and television spots featuring well-known celebrities, bus posters in thirty-two cities, the distribution of more than 90,000 guidebooks or brochures for consumers, and nearly 70,000 information kits distributed to school counselors.<sup>40</sup> Multiple investigations and hearings in six cities led to a remarkable 552-page report from the FTC detailing the methods of predatory schools.<sup>41</sup>

Concurrent with its consumer protection campaign, the FTC started bringing complaints against for-profit schools. From 1970 to mid-1974, the FTC issued twenty-five complaints against for-profit schools where the commission asserted schools had violated the Federal Trade Commission Act, including four major cases against large for-profit schools. In each case, the FTC alleged that the institutions had "unfairly retained sums obtained from thousands of students through the use of unfair and deceptive practices," and sought to have the proprietary schools provide restitution for students who were damaged by the "unfair practices and who were unable to obtain employment in the jobs for which training was obtained."<sup>42</sup>

Lobbyists for the trade schools dismissed the stories in the media and the FTC findings as anecdotal, blaming students and the U.S. Office of Education for student loan defaults.<sup>43</sup> Some members of Congress, many of them Republicans, were not convinced. At a House hearing in July 1974, Alphonzo Bell, a blue-blood GOP congressman from Los Angeles and a former member of the Republican National Committee, labeled the problems a "national scandal," not "isolated instances of local fraud."<sup>44</sup> The schools had "violated the most minimal standards of decency and professional ethics." They "lured unsuspecting persons into training courses of dubious value through misleading claims and high-pressure sales tactics. These schools sign up students when there is virtually no possibility they will ever realize the glamorous career objective so eloquently and deceptively sold to them."<sup>45</sup>

At the same hearing, Congressman Jerry Pettis, another Republican from Los Angeles, was just as steamed. These "fly-by-night outfits" were, according to Pettis, run by "shrewd manipulators and con artists" interested "only in Federal money for tuition."<sup>46</sup> When a witness from the FTC noted the dozens of cases the agency had filed against individual schools, Congressman Joel Pritchard (R-WA) pleaded for a more comprehensive approach, like legislative recommendations or regulation: "[T]his is not a national disaster but it is certainly a national disgrace. . . . It is hard for me to believe that bringing complaints against 35 or 375 [schools] is really what was needed."<sup>47</sup>

Pritchard, a World War II veteran who was familiar with the abuses that had taken place under the first GI Bill, suggested that if the government could not adequately check every school, “the only other way is if you hang a couple of people when they get out of line. That is enforcement and there is no better way to do it and if no one is in jail or in prison today, then you have a lot of people getting away with a lot of bad stuff.”<sup>48</sup>

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Caspar Weinberger, the secretary of health, education, and welfare (who would later become defense secretary in the Reagan administration), saw many students as victims who should not have to repay their loans if the school misled them.

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Spurred in part by the FTC’s campaign, the Department of Health, Education and Welfare (HEW) began to shift its regulatory efforts. While HEW had initially treated rising student loan defaults as largely due to poor collection procedures, federal officials came to believe that in many cases the schools themselves were a bigger problem.<sup>49</sup> Using authority Congress had granted it in 1972, the Office of Education began to take action against schools and, by July 1975, the *Wall Street Journal* reported that 340 had been removed from participation in federal student aid programs. Caspar Weinberger, the secretary of health, education, and welfare (who would later become defense secretary in the Reagan administration), saw many students as victims who should not have to repay their loans if the school misled them. HEW, he said, would recognize “the student’s assertions of a defense and not knowingly attempt to collect from a student when he has a valid defense.”<sup>50</sup> Weinberger believed that “the potential for abuse resulting from the rapid increase in the level of federal funds flowing to institutions of higher education . . . required HEW to assume responsibility for administering their operation at a level of detail that in other circumstances would have been entirely inappropriate.”<sup>51</sup>

In August 1974, just three weeks after the House hearings (and one week after Nixon resigned and Gerald Ford assumed the presidency), the FTC proposed a Trade Regulation Rule for Proprietary Vocational and Home Study Schools. Under the proposed rule, schools would be required to substantiate advertising claims of job placement success. They would have to inform each prospective consumer of the school’s dropout rate. And, if schools made earnings claims about their programs, they would have to prominently disclose the job placement rates and salary levels of their students.<sup>52</sup>

Congress, meanwhile, in a law that expanded GI Bill benefits for Vietnam veterans, banned schools from education and training programs that used recruiting or advertising which was “erroneous, deceptive, or misleading either by actual statement, omission, or intimation.”<sup>53</sup> (The bill’s cost drew a veto from President Gerald Ford that was subsequently overridden by Congress).

In October, HEW proposed new rules governing the student loan program. Finalized in February 1975, the rules required that all institutions provide information disclosures to students before they enrolled, and a “fair and equitable refund” to students who changed their minds about attending. The regulations further specified that, for prospective students at vocational schools,

institutions must disclose information about a student's employment prospects in their field of training.<sup>54</sup>

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Terrel Bell, the education commissioner, explained, “I personally question the soundness of an institution whose existence is totally derived from signing up students who qualify for Federal aid.”

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Perhaps most striking, the HEW regulations allowed the commissioner of education to review the continued eligibility for student aid of any school that became too reliant on federal loans, a figure pegged at 60 percent of the enrolled students. In a speech entitled “It’s Time to Protect Education Consumers Too,” Terrel Bell, the education commissioner, explained, “I personally question the soundness of an institution whose existence is totally derived from signing up students who qualify for Federal aid.”<sup>55</sup> Conservatives generally applauded the Ford administration’s new regulations. Chester Finn, Jr., a researcher who would go on to be a senior appointee at the Department of Education in the Reagan administration, said the rules “set reasonable standards for the government to employ against the political, fiscal, and human costs of fly-by-night institutions, false advertising, overly zealous recruiting, and shoddy teaching. Indeed, one might well wonder why they were so long in coming.”<sup>56</sup>

The Veterans Administration got tougher too. It was the VA’s view that schools that ran completely off of federal aid represented a hazard to veterans and to taxpayers. A requirement that prohibited more than 85 percent veterans in a program had helped to prevent abuse, but it was being undermined by the newer federal aid programs to non-veterans. The VA administrator asked Congress to require schools to show that some students—at least 15 percent—pay for programs receiving GI Bill funds without federal aid *of any type*. “It is our position that, if an institution of higher learning cannot attract sufficient nonveteran and nonsubsidized students to its programs it presents a great potential for abuse of our GI educational programs.”<sup>57</sup> Congress adopted the change along with others, agreeing the reforms were needed to “weed out those institutions who could survive only by the heavy influx of Federal payments.”<sup>58</sup>

As a result, default rates dropped, and, in a 1982 retrospective on his time at HEW, Caspar Weinberger declared victory: “History apparently had judged our efforts to limit GSLP [guaranteed student loan program] abuses to be successful.”<sup>59</sup> The reforms, however, did not stick. Loopholes in the HEW regulations, as well as lawsuits and lobbying by the industry, soon undermined the new federal laws and regulations. Abuses of both the student loan program and the Pell Grant program resurfaced with a vengeance just a few years later during the administration of a Republican icon, President Ronald Reagan.

## Timeline of For-Profit Higher Education

Scroll through the below timeline to view the history of for-profit higher education.

*CORRECTION: An earlier version of this report stated that ACICS lost federal recognition in 2015, when this actually occurred in 2016. The report was updated to reflect this correction on March 14, 2017.*

## Notes

1. *Educational Benefits Available for Returning Vietnam Era Veterans, Part I*, Hearings before the Subcommittee on Readjustment, Education, and Employment, Senate Committee on Veterans' Affairs, 92nd Cong., 2nd Sess., March 23, 1972, <https://drive.google.com/file/d/0B7aqIo3eYEutbHo3N0tya29uRjA/view?usp=sharing>.
2. Ibid., 51.
3. James Bowman et al., "Educational Assistance to Veterans: A Comparative Study of Three GI Bills," Educational Testing Service, September 1973, reprinted in *Final Report on Educational Assistance to Veterans: A Comparative Study of Three G.I. Bills*, Committee on Veterans' Affairs, U.S. Senate, Senate Committee Print No. 18, September 20, 1973, 93rd Cong., 1st sess., 171, 181, <https://drive.google.com/file/d/0B7aqIo3eYEutamhSMmRzcURGdTg/view?usp=sharing>.
4. Testimony of Harold Orlans in *Proprietary Vocational Schools*, Special Studies Subcommittee of the House Committee on Government Operations, 93rd Cong, 2nd Sess., July 1974, 56, <https://drive.google.com/file/d/0B7aqIo3eYEuteWUtOUtva0NVUVk/view?usp=sharing>.
5. Terrel Bell (who later became President Reagan's education secretary), in "Guaranteed Student Loan Program," Hearings before the Permanent Subcommittee on Investigations of the Committee on Government Operations, United States Senate, Part I, 1976, 282, <https://drive.google.com/file/d/0B7aqIo3eYEutZTVLvmJHeE42MFE/view?usp=sharing>.
6. Loans to borrowers from for-profit schools accounted for 88 percent of all delinquent funds paid. *Proprietary Vocational and Home Study Schools*, Final Report to the Federal Trade Commission and Proposed Trade Regulation Rule, Part II, Federal Trade Commission, December 10, 1976, 510, <https://drive.google.com/file/d/0B7aqIo3eYEutQUhtUXRmOTFzZFk/view?usp=sharing>.
7. Charlotte J. Fraas, "Proprietary Schools and Student Financial Aid Programs: Background and Policy Issues," Congressional Research Service, 90-427 EPW, Aug. 31, 1990, p. CRS-51. When Congressman William Ford (D-Michigan), the future chairman of the House Education and Labor Committee arrived in Washington after being elected in 1964, he found that Congress was still "broiling with anger" about the misuse of federal student aid dollars. The anger, Ford recalled, "remained from the period of the much-publicized abuses of the GI bill." *Hearings on the Reauthorization of The Higher Education Act of 1965: Program Integrity*, House Committee on Education and Labor, Subcommittee on Postsecondary Education, 102nd Cong., 1st Sess., Serial No. 102-39, May 30, 1991, 427, <https://drive.google.com/file/d/0B7aqIo3eYEutTmxZMF9fa2JPb3c/view?usp=sharing>.
8. The vocational program began much smaller. The National Vocational Student Loan Insurance Act of 1965 authorized insurance for an estimated \$19 million in loans, according to President Johnson's signing statement available at <http://www.presidency.ucsb.edu/ws/?pid=27327>. The Higher Education Act, P.L. 89-329, called for loan guarantees up to \$1.4 billion.
9. Larry Van Dyne, "The 'FISL Factories,'" *The Chronicle of Higher Education* 10, no. 19, August 4, 1975, 5, <https://drive.google.com/file/d/0B7aqIo3eYEutSzVERHVsS3BhMm8/view?usp=sharing>.
10. Ibid, 4.
11. Quoted in *Proprietary Vocational and Home Study Schools*, Final Report to the Federal Trade Commission and Proposed Trade Regulation Rule, Federal Trade Commission, December 10, 1976, 157, <https://drive.google.com/file/d/0B7aqIo3eYEutQUhtUXRmOTFzZFk/view?usp=sharing>.
12. Ibid., 300-01.
13. Quoted in Larry Van Dyne, "The 'FISL Factories,'" *The Chronicle of Higher Education*, August 4, 1975, 4, <https://drive.google.com/file/d/0B7aqIo3eYEutSzVERHVsS3BhMm8/view?usp=sharing>.



14. *Proprietary Vocational and Home Study Schools*, Final Report to the Federal Trade Commission and Proposed Trade Regulation Rule, Federal Trade Commission, December 10, 1976, 298, <https://drive.google.com/file/d/0B7aqIo3eYEutQUhtUXRmOTFzZfK/view?usp=sharing>.
15. Dan Rottenberg, "Many Computer Schools Charged with Offering a Useless Education," *Wall Street Journal*, June 10, 1970, 1. <https://drive.google.com/file/d/0B7aqIo3eYEut1ctUDBkb1dXa3M/view?usp=sharing>.
16. Carl Bernstein, "'Deceptive' Career School Ads Cited by FTC," *Washington Post*, July 14, 1971, pp. C1, C3, <https://drive.google.com/file/d/0B7aqIo3eYEutTHpkWVB5a2YwdU0/view?usp=sharing>. Bernstein reported that an FTC investigation of Cinderella had found that "central to [the school's] mode of operation is the promise of the availability of jobs and the holding out of nonexistent jobs to prospective students for the sole purpose of enrolling them."
17. Carl Bernstein, "Hard Sell on Job Training," *Washington Post*, July 12, 1971, A1, A3, <https://drive.google.com/file/d/0B7aqIo3eYEutSTNqY3M2Y0JxNFU/view?usp=sharing>.
18. Carl Bernstein, "Career Schools Find Haven in Washington," *Washington Post*, July 15, 1971, B1, B2, <https://drive.google.com/file/d/0B7aqIo3eYEutSjN6Z2NVOGVZWGM/view?usp=sharing>.
19. "Career Schools: Broken Rules, Shattered Hopes," *Washington Post*, October 7, 1971, A22, <https://drive.google.com/file/d/0B7aqIo3eYEutWGY1ZGVLN094dWc/view?usp=sharing>.
20. "How to Discourage College Students," *Washington Post*, Aug. 22, 2010, A14, <http://www.washingtonpost.com/wp-dyn/content/article/2010/08/21/AR2010082102468.html>. The *Washington Post's* editorial prominently disclosed that "Readers should know that we have a conflict of interest regarding this subject. The Washington Post Co., which owns the Post newspaper and washingtonpost.com, also owns Kaplan University and other for-profit schools of higher education that, according to company officials, could be harmed by the proposed regulations." The Post's ombudsman suggested in November 2010 that the paper expand its coverage of allegations against Kaplan. Andrew Alexander, "Post Needs to Beef Up Its Coverage of Allegations against Kaplan," *Washington Post*, November 19, 2010. Nine days earlier, the *New York Times* had run an extensive front-page story on the allegations against Kaplan. See Tamar Lewin, "Scrutiny and Suits Take a Toll On For-Profit College Company," *New York Times*, November 10, 2010, <http://www.nytimes.com/2010/11/10/education/10kaplan.html>.
21. Chester Finn Jr., "In Washington We Trust, Federalism and the Universities: The Balance Shifts," *Change* 7, no. 10 (Winter 1975/76): 26, <https://drive.google.com/file/d/0B7aqIo3eYEutYIM1bW1PTXVVYwC/view?usp=sharing>.
22. Spotlight Team, "Many Career Schools Turn Education Into a Fast-Buck," *Boston Globe*, March 26, 1974, <https://drive.google.com/file/d/0B7aqIo3eYEutTh1QXVmaVd4eTg/view?usp=sharing>.
23. Spotlight Team, "ITT Tech watches profit, puts quality training in back row," *Boston Globe*, March 26, 1974. The complete Spotlight Team series from the *Boston Globe*, which ran from March 25 to April 1, 1974, was reprinted in the Congressional Record, Senate, April 4, 1974, S5235-S5249, <https://drive.google.com/file/d/0B7aqIo3eYEutW5yd1hDeVZaa2s/view?usp=sharing>.
24. Ibid.
25. Spotlight Team, "ITT Health-Assistant Courses Prove Costly, Bitter Lessons," *Boston Globe*, March 26, 1974, <https://drive.google.com/file/d/0B7aqIo3eYEutX3kxMVNSUKRHenM/view?usp=sharing>.
26. Spotlight Team, "ITT Tech watches profit, puts quality training in back row," *Boston Globe*, March 26, 1974, <https://drive.google.com/file/d/0B7aqIo3eYEutW5yd1hDeVZaa2s/view?usp=sharing>.
27. Tribune Task Force Report, "Career schools—results seldom equal promise," *Chicago Tribune*, June 8, 1975, 1, <https://drive.google.com/file/d/0B7aqIo3eYEutUGlZYURKdDNla3c/view?usp=sharing>.
28. Mike Tharp, "Charges of Fraud Hit Student-Loan Program Backed by Government," *Wall Street Journal*, June 30, 1975, 1, 9, <https://drive.google.com/file/d/0B7aqIo3eYEutZWVqWUF3VHJoZGs/view?usp=sharing>.

29. Eric Wentworth, "Profit-Making Schools: Deception and Exploitation Charged," First in the series, "The Knowledge Hustlers," *Washington Post*, June 23, 1974, A1, <https://drive.google.com/file/d/0B7aqIo3eYEutdEIVU3d0MFBEBjA/view?usp=sharing>.
30. Eric Wentworth, "Folding Schools Increase Loan Defaults," Second in a series, "The Knowledge Hustlers," *Washington Post*, June 24, 1974, A1, <https://drive.google.com/file/d/0B7aqIo3eYEutOWdFMUZ3eEI2ZXc/view?usp=sharing>.
31. Eric Wentworth, "For Thousands, Accreditation Has Spelled Deception," Last in a series, "The Knowledge Hustlers," *Washington Post*, June 26, 1974, A14, <https://drive.google.com/file/d/0B7aqIo3eYEutOW85a3VLSmx0dkU/view?usp=sharing>.
32. Wentworth, "Folding Schools Increase Loan Defaults," A1, A14, <https://drive.google.com/file/d/0B7aqIo3eYEutOWdFMUZ3eEI2ZXc/view?usp=sharing>.
33. Ibid.
34. Paul Fain, "Education Secretary Drops Recognition of Accreditor," *Inside Higher Ed*, December 13, 2016, <https://www.insidehighered.com/quicktakes/2016/12/13/education-secretary-drops-recognition-accreditor>.
35. *CBS Evening News* with Walter Cronkite, August 18–19, 1975. Roger Mudd substituted as anchor for Cronkite for both broadcasts. The two Special Reports on for-profit schools were reported by Sharron Lovejoy, with an assist from Bernard Kalb.
36. Quoted in Wellford W. Wilms, "Proprietary Schools and Student Financial Aid," *The Journal of Student Financial Aid* 13, no. 2 (Spring 1983): 9, <https://drive.google.com/file/d/0B7aqIo3eYEutVDV3WFpkZTVKcnM/view?usp=sharing>.
37. Ibid., 8.
38. The chairman of the FTC was Lewis Engman, a Nixon loyalist who had been the assistant director of Nixon's White House Domestic Policy Council and subsequently became head of the Pharmaceutical Manufacturers Association. Nixon White House aide Elizabeth Hanford, who would soon marry GOP Senator Bob Dole and go on herself to become a GOP senator, was one of the five FTC commissioners.
39. See testimony of Joan Z. Bernstein, deputy director of the Bureau of Consumer Protection at the FTC, in *Proprietary Vocational Schools*, Hearings of the Special Studies Subcommittee of the House Committee on Government Operations, July 1974, 17, <https://drive.google.com/file/d/0B7aqIo3eYEuteWUtOUTva0NVUVk/view?usp=sharing>.
40. The celebrities included Della Reese, an African-American singer-actress-talk show host, and Raymond Burr, known for portraying District Attorney Perry Mason in an eponymous long-running television series. Ibid., 42–44.
41. *Proprietary Vocational and Home Study Schools*, Final Report to the Federal Trade Commission and Proposed Trade Regulation Rule, Federal Trade Commission, December 10, 1976, 21, <https://drive.google.com/file/d/0B7aqIo3eYEutQUhtUXRmOTFzZfK/view?usp=sharing>.
42. *Proprietary Vocational Schools*, Hearings of the Special Studies Subcommittee of the House Committee on Government Operations, July 1974, 42, <https://drive.google.com/file/d/0B7aqIo3eYEuteWUtOUTva0NVUVk/view?usp=sharing>.
43. Many industry advocates bitterly resented the FTC campaign and vowed to lobby Congress to undo the FTC's actions. At the July 1974 House hearing, Joseph Clark, president of the National Association of State Administrators and Supervisors of Private Schools, attacked the "generals" at the FTC for shooting expanding "dum-dum bullets" at for-profit schools by employing "well-known personalities whose words explode in the minds of the consumer, killing unfortunately, that's person attempt to obtain a good education." Ibid., 82. Clark also warned the chairman of the House subcommittee, Representative Floyd Hicks (D-WA), that "I'm speaking right now for 42 states in the nation when I'm telling you they are so upset . . . what's going to happen is that at some point we are going to start fighting them in Congress and the Senate. And when you stop and multiply 42 States by the number of Congressmen and Senators we have, I don't think the Federal Trade Commission wants that kind of a fight." Ibid, 112, <https://drive.google.com/file/d/0B7aqIo3eYEuteWUtOUTva0NVUVk/view?usp=sharing>.

44. *Proprietary Vocational Schools*, Special Studies Subcommittee of the House Committee on Government Operations, July 1974, 3, <https://drive.google.com/file/d/0B7aqIo3eYEUTEWUtOUTva0NVUVk/view?usp=sharing>.

45. *Ibid.*, 4.

46. *Ibid.*, 8.

47. Pritchard had asked, "Have you sent up any legislation or did you bring forth any legislation that would have given you either more clout or some type of an answer to this problem?" *Proprietary Vocational Schools*, Special Studies Subcommittee of the House Committee on Government Operations, July 1974, 44, <https://drive.google.com/file/d/0B7aqIo3eYEUTEWUtOUTva0NVUVk/view?usp=sharing>.

48. *Ibid.*, 49.

49. In 1975, the U.S. Office of Education went to the extraordinary lengths of awarding a research contract to identify a "taxonomy of practices for which there could be general agreement that 'this is clearly abusive.'" Researchers at the American Institutes of Research (AIR) performed a literature search of abusive practices by postsecondary institutions and reviewed all 630 complaints USOE had received from students from 1969 to July 1975 about their postsecondary education. In the contract award, USOE had not limited AIR's research just to abuses committed by proprietary schools. But AIR researchers discovered that *all* of the 630 complaints that USOE had received in the previous six years involved proprietary schools. Based on its analysis, AIR compiled a list of 14 practices of institutional abuse similar to those identified by the Teague Commission more than twenty years earlier—inequitable refund policies, misleading recruiting and admission practices, untrue or misleading advertising, lack of adequate job placement services, lack of adequate financial stability, etc. See Steven M. Jung, Jack A. Hamilton, et. al, "Study Design and Analysis Plan: Improving the Consumer Protection Function in Postsecondary Education," October 21, 1975, American Institutes for Research, AIR-52800-10/75-TR, 10, <https://drive.google.com/file/d/0B7aqIo3eYEUTNW5CdVhaTElQQVk/view?usp=sharing>.

50. Mike Tharp, "Charges of Fraud Hit Student-Loan Program Backed by Government," *Wall Street Journal*, June 30, 1975, 1, 9, <https://drive.google.com/file/d/0B7aqIo3eYEUTZWVqWUF3VHJoZGs/view?usp=sharing>.

51. Caspar W. Weinberger, "Reflections on the Seventies," *Journal of College and University Law* 8, no. 4 (1981–82): 452-453, <https://drive.google.com/file/d/0B7aqIo3eYEUTV0phX2c5bFbYtM/view?usp=sharing>.

52. The proposed rule, initially released on August 15, 1974 (*Federal Register* 39, no. 159 [August 15, 1974]: 29385), was reissued in May 1975 due to changes Congress had made with respect to an unrelated issue. "Proprietary Vocational and Home Study Schools," *Federal Register* 43, no. 250 (December 28, 1978): 60819, <https://drive.google.com/file/d/0B7aqIo3eYEUTQUhtUXRmOTFzZfK/view?usp=sharing>.

53. Public Law 93-508, December 3, 1974. With the support of the Nixon administration, Congress also added a requirement in 1972 that veterans and active-duty servicemen had to pay 10 percent of the tab for correspondence courses out of their own pocket. The 10 percent requirement was designed to give GIs a financial stake in their choice of correspondence courses and to encourage them to think through their job training objectives. See the November 27, 1971 letter from Veterans' Administration administrator Donald Johnson to Vice President Spiro Agnew, reprinted in *Educational Benefits Available for Returning Vietnam Era Veterans, Part I*, Subcommittee on Readjustment, Education, and Employment of the Senate Committee on Veterans' Affairs, 92nd. Cong., 2nd Sess., March 23, 1972, 191, <https://drive.google.com/file/d/0B7aqIo3eYEUTbHo3N0tya29uRjA/view?usp=sharing>.

54. "Chapter I—Office of Education, Department of Health, Education, and Welfare; Part 177—Federal, State and Private Programs of Low-Interest Loans to Students in Institutions," *Federal Register* 40, no. 32 (February 20, 1975): 7596, <https://drive.google.com/file/d/0B7adHdBE6w3mbGp3ZHRncW1HdzQ/view?usp=sharing>. Programs that prepared students for a particular vocation, trade, or career field were to provide prospective students with information on "the employment of students enrolled in such courses," including "data regarding the average starting salary for previously enrolled students entering positions of employment

for which the courses of study offered by the institution are intended as preparation and the percentage of such students who obtained employment in such positions.” The school’s information was to be “based on the most recently available data. If the institution, after reasonable effort, cannot obtain statistically meaningful data regarding its own students, it may use the most recent comparable regional or national data.”

55. “It’s Time to Protect Education Consumers Too,” remarks of U.S. Commissioner of Education Terrel H. Bell to the Statewide Higher Education Executive Officers, April 24, 1975, 5. Bell noted that “when there is rapid growth in any sector, there is a danger of malpractice. And, as much as we would like to attribute beneficence to the world of education, it, too, has its charlatans—the seekers of the fast buck.” <http://files.eric.ed.gov/fulltext/ED108554.pdf>.

56. Chester Finn Jr., “In Washington We Trust, Federalism and the Universities: The Balance Shifts,” *Change* 7, no. 10 (Winter 1975/1976): 25–26, <https://drive.google.com/file/d/0B7aqIo3eYEutYIM1bW1PTXVVYwC/view?usp=sharing>.

57. The VA administrator, Donald Johnson, is quoted in Senate Rep. No. 1243, 94th Cong., 2nd Sess. 1976, <https://drive.google.com/file/d/0B7aqIo3eYEutVS1XUnVCdHVCWlU/view?usp=sharing>, 89.

58. Ibid. The industry sued to stop the 85–15 rule, arguing among other things that it denied veterans equal protection of the law since the 85–15 rule didn’t apply to non-veterans, whose education could otherwise be subsidized by the federal government. In 1978, the U.S. Supreme Court rejected that argument and upheld the requirement. It found that the history of the G.I. Bill “revealed a need for legislation that would minimize the risk that veterans’ benefits would be wasted on educational programs of little value. It was not irrational for Congress to conclude that restricting benefits to established courses that have attracted a substantial number of students whose education are not being subsidized would be useful in accomplishing this objective and ‘prevent charlatans from grabbing the veterans’ education money.” *Cleland v. National College of Business*, 435 U.S. 213, 1978, <https://supreme.justia.com/cases/federal/us/435/213/case.html>.

59. Caspar W. Weinberger, “Reflection on the Seventies,” *Journal of College and University Law* 8, no. 4 (1981–82), 456, <https://drive.google.com/file/d/0B7aqIo3eYEutV0phX2c5bFBYTmM/view?usp=sharing>.



## David Whitman, Contributor

David Whitman was the chief speechwriter for U.S. Secretary of Education Arne Duncan from mid-2009 to November 2014. Prior to that, he covered social policy for U.S. News & World Report for nearly two decades, from 1985 to 2003. He is the author of the award-winning book, *Sweating the Small Stuff: Inner City Schools and the New Paternalism* (Thomas B. Fordham Institute, 2008), a two-year study of six high-performing inner-city secondary schools and their successful educational models. His articles have appeared in the *Wall Street Journal*, *Washington Post*, the *Atlantic*, *New Republic*, and numerous other publications. Currently, he is president and founder of Whitman Wordsmithing & Communications.



**Secretary BENNETT.** We are not going to give you the names of any institutions that we believe are irresponsible until we believe we have a solid case. But the notion that, in the absence of that, we cannot appreciate that there are institutions out there, ripping off kids, is astounding. Everybody knows this, Senator; everybody knows this.

**Senator KENNEDY.** Sure. But the generalization—what percentage, Mr. Secretary—what percentage?

**Secretary BENNETT.** What percentage of what?

**Senator KENNEDY.** Of the proprietary institutions are ripping off all into that characterization?

#### REPORT THE CYCLE OF SCANDAL AT FOR-PROFIT COLLEGES

# The Reagan Administration's Campaign to Rein In Predatory For-Profit Colleges

FEBRUARY 13, 2017 — DAVID WHITMAN

*This report is the third in a TCF series—The Cycle of Scandal at For-Profit Colleges—examining the troubled history of for-profit higher education, from the problems that plagued the post-World War II GI Bill to the reform efforts undertaken by the George H. W. Bush administration.*

No secretary of education has been more critical of traditional higher education than William Bennett, President Ronald Reagan's second and best-known education secretary. Barely five days after taking office in February 1985, Bennett accused the nation's colleges of offering a low-quality education at too high a price, and he accused college students of spending frivolously on cars, stereos, and beach vacations—dismissing their complaints about proposed cuts in federal aid.<sup>1</sup>

Less than a year after Bennett took office, he took on a target that many of today's Republicans might consider sacrilege: for-profit colleges. He did so in language that was far more damning of the industry than any statements by Obama administration officials. Far from just a case of some bad apples, according to Bennett there were “serious, and in some cases pervasive, structural problems in the governance, operation, and delivery of postsecondary vocational-technical education.”<sup>2</sup>

Republicans, who controlled the White House and the Senate in 1986, were caught somewhat off guard by the problems of predatory for-profit colleges. They thought they had largely resolved these issues in the prior GOP administration ten years earlier, when Bennett's predecessor, Terrel Bell under President Ford, had adopted regulations allowing extra scrutiny of any school where more than 60 percent of students used federal loans and, separately, the Federal Trade Commission had issued a rule to prevent misleading job placement claims by for-profit schools. But by the start of the Reagan presidency in 1981, those rules were gone or weakened,<sup>3</sup> and Democrats had opened the door to for-profit colleges enrolling students without high school diplomas.<sup>4</sup> On top of that, the Reagan administration's proposed cuts to education funding led to reduced enforcement staff, undermining the agency's ability to keep for-profit colleges in check.<sup>5</sup> Soon, the industry was rife with abuses once again.

## THE CYCLE OF SCANDAL AT FOR-PROFIT COLLEGES SERIES

Read the series of papers focusing on the repeated for-profit college scandals of the past sixty years.

When President George H. W. Bush “Cracked Down” on Abuses at For-Profit Colleges

The Reagan Administration's Campaign to Rein In Predatory For-Profit Colleges

Vietnam Vets and a New Student Loan Program Bring New College Scams

Truman, Eisenhower, and the First GI Bill Scandal

The For-Profit College Story: Scandal, Regulate, Forget, Repeat

The GOP Has a Long History of Cracking Down on “Sham Schools”

## Bill Bennett Goes on the Attack



At a January 1986 Senate hearing, Secretary Bennett testified that “Institutions are defrauding students, and in many cases they are ripping off the American public, when they admit individuals who are manifestly unprepared for the work that will be required of them, or when they graduate students who cannot satisfy minimum standards in their field of study.”<sup>6</sup> He was alarmed that “some proprietary schools, accredited by the state or by accrediting agencies, are graduating large numbers of students who fail the relevant state licensing examination. Without their professional license, these graduates cannot find employment,” making them unlikely to be able to repay their loans.<sup>7</sup>

A skeptical Senator Ted Kennedy (D-MA) asked Bennett to name the institutions that were “defrauding students,” “ripping off the American public,” and admitting unprepared students. Bennett pointed to an August 1984 report by the U.S. General Accounting Office (now the Government Accountability Office, or GAO) which found that “83 percent of proprietary schools consistently failed to enforce academic progress standards” and, that of the 1,165 for-profit schools studied, “766 of them has misrepresented themselves during the recruitment process; 533 overstated job placement rates; 366 misrepresented scholarships; and 399 misrepresented themselves in advertising.”<sup>8</sup>

Over the next year, the burgeoning default crisis only worsened. The proportion of federal student aid dollars going to cover default payments—the figure that had first alerted Bennett to the scope of the problem—jumped substantially. In 1985, about a third of dollars in the federally guaranteed student loan program budget went to paying student defaults; by late 1987, the department was projecting that almost half of the student loan budget (47 percent) would be used the following year to pay for defaulted loans. Bennett was adamant that the default crisis required urgent federal intervention.

What was Bennett’s response to the default crisis? He decided to unilaterally initiate policy change through the regulatory process. In a November 1987 press conference, and in a simultaneous “Dear President” letter sent to all 7,200-plus college and university presidents whose institutions participated in the guaranteed student loan program, Bennett announced the Department of Education would develop new regulations to establish a trigger cutoff point for institutions receiving federal aid. Under the new regulations, postsecondary institutions whose students had a default rate above 20 percent on their guaranteed loans by December 1990 would immediately be subject to hearings to limit, suspend, or terminate their participation in federal student aid programs. In addition, Bennett ordered immediate investigations of the more than 500 postsecondary institutions that had default rates in excess of 50 percent. “It’s accountability time,” Bennett declared at his press conference. “The current situation is intolerable.”<sup>9</sup>

Bennett’s proposal disproportionately affected for-profit schools. Of the 2,190 institutions that had default rates above 20 percent in 1986, Bennett estimated 80 percent of the potentially affected institutions were proprietary.<sup>10</sup> Institutions with uber-high default rates above 50 percent were even more concentrated among for-profits. The Department of Education projected that, in 1987, 600 proprietary schools had default rates above 50 percent, compared to only thirty-three other colleges.<sup>11</sup> When Bennett was asked at his press conference about the impact of his proposal on the for-profit industry, he said the regulation “won’t close [all] proprietary schools. It will close those [that] deserve to be eliminated based on their irresponsible treatment of students.”<sup>12</sup>



## The For-Profit Industry and Its Supporters Respond

The reaction to Bennett's proposal from the for-profit industry was fast and furious. Stephen Blair, president of the National Associate of Trade and Technical Schools, said that Bennett's proposal would deny "access to low-income minority students in this country. The impact of that is unconscionable."<sup>13</sup> Eleanor Vreeland, president and CEO of the Katherine Gibbs Schools, warned that Bennett's "accusation and hyperbole leads to an environment of mass hysteria on the part of the media and sometimes policymakers."<sup>14</sup>

Leading Democrats in Congress were quick to adopt the industry argument, asserting that for-profit schools had more defaults due simply to having lots of low-income and minority students, not because of institutional misbehavior and practices. Senator Ted Kennedy, the chairman of the Senate Labor and Human Resources Committee told Bennett at the start of a hearing one month after Bennett announced his plan, "Many schools with high default rates also serve a very high percentage of minority and disadvantaged students. I am especially troubled by any proposal that would eliminate large numbers of these schools and their students from the [guaranteed student loan] program."<sup>15</sup> When Senator Claiborne Pell (D-RI), the father of the Pell Grant program, suggested that for-profit schools instead be referred to as "taxpayer schools," Bennett responded that while there were numerous model proprietary schools, there were "a lot of irresponsible proprietary schools, too—and whether they are paying taxes or not, they are ripping off students."<sup>16</sup>

Under questioning from Senator Dan Quayle (R-IN), who would soon become Vice President in the Bush administration, Bennett said that in the "real world" there are "profit institutions out there that are interested only in that profit and not interested in students....We'll put some of them out of business right now if we get the right message from this hearing." Asked by Quayle if that would be a good outcome, Bennett cut him off: "You bet." One of the "intended consequences" of his regulations, Bennett said, "would be to get institutions that are exploiting kids and exploiting taxpayers out of the business."<sup>17</sup>

Bruce Carnes, the deputy undersecretary for education, defended the Reagan administration at the hearing from charges that a crackdown on proprietary schools would reduce access for disadvantaged students. Carnes, like his successors in the Obama administration, argued that just the reverse was the case—that it was the Reagan administration who was trying to maintain access for vulnerable and disadvantaged students to postsecondary training by protecting them from wasting their limited loan and grant dollars at schools where they "are victimized and taken advantage of." Some schools, Carnes said, were sending "recruiters into unemployment offices to drag people with little chance of succeeding at their school out to go into their academic programs, and sign them up for federal student aid. There are virtually, in many instances, nonexistent standards for admission—if you can read or write, you are in. And these people, it seems to me, are the ones that we are trying to protect."<sup>18</sup>

As the contentious hearing wore on, committee chair Ted Kennedy blasted Bennett for unfairly indicting the for-profit sector for the sins of a few and for failing to provide adequate data to prove his claims about institutional malpractice. Kennedy demanded: "We hear that we are going to save all these kids because we've got all these 'hucksters' who are out there, pulling

kids out of unemployment lines, throwing them into proprietary schools and trying to make a buck on them. If you've got the evidence of that, let's have it, Mr. Secretary, let's have it. Let's have it right now! Give me the studies that show what percent of them are out there, huckstering young kids. I'd like to hear that right now.”<sup>19</sup>

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“Many for-profit schools do not exist to perform a service for young people seeking an education, but to use would-be students as a means to extract Guaranteed Loan money and Pell Grants from the Federal government to fill the pocketbooks of the school owners.”

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Bennett was taken aback that Kennedy seemed to be dismissing the seriousness of trade school abuses. “The notion that, in the absence [of a pending Department of Education study], one cannot appreciate that there are institutions out there, ripping off kids, is astounding,” Bennett told Kennedy. “Everybody knows this, Senator; everybody knows this.” Undeterred, Kennedy pressed Bennett to specify the percentage of for-profit schools that were ripping off students. Bennett responded to Senator Kennedy by saying that “30 [percent], maybe 40 [percent]”—prompting Kennedy to ask, “in terms of the 30 or 40 percent that are effectively ripping off the kids, how do you define ‘ripping off the kids?’” Bennett responded that they were schools with “very low graduation rates; very high dropout rates; kids unable to find jobs after completing their studies, of those who do complete their studies.” He then quoted from a letter from the Legal Aid Bureau of United Charities of Chicago, which stated: “Many for-profit schools do not exist to perform a service for young people seeking an education, but to use would-be students as a means to extract Guaranteed Loan money and Pell Grants from the Federal government to fill the pocketbooks of the school owners.”<sup>20</sup>

## The Department of Education Takes Action

Three months after his dust-up with Kennedy, Bennett released the department's study of for-profit schools that he had promised, sending it to Kennedy with a cover letter, along with reports from the department's inspector general. While Senator Kennedy was no stranger to partisan or ideological battles, he nonetheless changed his position in response to Bennett's well-documented evidence of problems at for-profit schools. “Secretary Bennett's report documents serious abuses in federal student-aid programs,” Kennedy acknowledged in a press statement, adding that “urgent action” was required by “both Congress and the Department of Education to end the abuses while preserving the essential role of these programs in helping needy students.”<sup>21</sup>

The seventy-seven-page study, prepared by the consulting firm Pelavin Associates, drew news coverage across the country. In a scorching cover letter, Bennett wrote Kennedy that the Pelavin report and related documents provided “extensive evidence” of abuses by for-profit schools. “You will find,” Bennett wrote, “accounts of semiliterate high school dropouts lured to enroll in

expensive training programs with false promises of lucrative jobs, only to have their hopes for a better future cruelly dashed. You will read of falsified scores on entrance exams, poor quality training and harsh refund policies.”<sup>22</sup>

## Bennett to Hill: Investigate Trade Schools

*Education Secretary Sends Evidence of Abuses in Student Loans, Recruiting, Testing*

By Barbara Vobejda  
Washington Post Staff Writer

Education Secretary William J. Bennett sent Congress what he termed “extensive evidence” yesterday that many for-profit trade schools are exploiting and deceiving students.

In some cases, Bennett said, they are recruiting young people with little income and academic preparation into expensive training programs that the students have little chance of completing.

Bennett urged Congress to hold hearings and close loopholes that allow schools to misuse federal student aid funds and take advantage of vulnerable students.

Among changes he is seeking is repeal of a law that allows students without a high school diploma or its equivalent to receive federal student aid for training or college.

Describing findings he compiled for Congress, Bennett wrote: “You will find accounts of semiliterate high school dropouts lured to enroll in expensive training programs with false promises of lucrative jobs, only to have their hopes for a better future cruelly dashed. You will read of falsified scores on entrance exams, poor quality training and harsh refund policies.”

Material he presented does not indicate what percentage of the nation's nearly 7,000 proprietary schools fall in this category, but Bennett said the evidence indicates “a pattern of abuse at many proprietary schools.”

Bennett forwarded the material, including Education Department studies, investigations by its inspector general and reports by the state of New York, to Sen. Edward M. Kennedy (D-Mass.), chairman of

the Labor and Human Resources Committee.

Bennett's criticism comes a few months after he ordered a crack-down on institutions, many of them proprietary schools, with high default rates on student loans. That action and his criticism yesterday have turned new attention to for-profit schools, which have enjoyed tremendous enrollment increases in recent years.

According to a report for the Education Department by Pelavin Associates, enrollment at such schools increased 60 percent between 1976 and 1982, and more than half of postsecondary schools are for-profit institutions.

Among the most serious problems, Bennett said, is that of high loan-default rates. He reported that more than 600 proprietary schools had default rates of more than 50 percent in fiscal 1985.

The school had a withdrawal rate of more than 78 percent, according to the audit.

A representative of the trade-school industry expressed support for Bennett's efforts to get rid of “rotten apples” but expressed concern that the criticism may unfairly tarnish all for-profit schools.

“There are a lot of people out there doing a great job,” said Christopher Davis, a spokesman at the National Association of Trade and Technical Schools. “It's unfair for the image of those schools to be tainted because of the images of a few.”

Davis also raised a question that has troubled trade-school admission directors: If schools are held accountable for high student-loan default rates, should they be forced to screen out low-income students considered most likely to default?

“If schools are put in a position where they must pass judgment on students and start denying access to students, where do they go?” Davis asked.

Kennedy said that Bennett's report documents serious problems and that “urgent action” is required

by Congress and the department. But he cautioned that any steps should “preserve the essential role of these programs in helping needy students.”

Bennett proposed several corrections, most of which would tighten student loan regulations to lower defaults. Late last year, he announced rules that could bar institutions from the federally guaranteed student-loan program if they do not bring their default rates below 20 percent over the next three years.

Yesterday, Bennett asked Congress to increase the responsibility of lenders and guarantee agencies in covering defaulted loans and lifting restrictions so institutions can screen for students who have defaulted previously.

His proposals also would bar federal student loans to persons who have dropped out of high school. Current law allows students without high school diplomas to participate in the program if it can be demonstrated that the students have the ability to benefit from the training.

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Bennett stressed that these abuses were not isolated instances in the industry. “The pattern of abuses revealed in these documents,” Bennett concluded, “is an outrage perpetrated not only on the American taxpayer but most tragically, upon some of the most disadvantaged and most vulnerable members of society.”<sup>23</sup> Congress, Bennett said, must close “legislative loopholes that invite unscrupulous schools to defraud the taxpayer and take advantage of vulnerable students.”<sup>24</sup> As Bennett summarized for *Time* magazine: “The kids are left without an education and with no job, and the taxpayer ends up holding the bag for a kid who gets cheated.”<sup>25</sup> Shortly afterwards, Bennett also sent a letter to the nation's fifty governors, urging them to “undertake a thorough review and evaluation of all your State's laws and regulations governing proprietary school licensing and operations. See if they need amendment, strengthening or more rigorous enforcement.”<sup>26</sup>

As Bennett summarized for *Time* magazine: “The kids are left without an education and with no job, and the taxpayer ends up holding the bag for a kid who gets cheated.”

In addition to talking a tough game, Bennett boosted enforcement of existing regulations and laws for trade schools in the months following the release of the Pelavin report. In a front-page leader headlined “Rip-Off Tech,” the *Wall Street Journal* reported that between March and September 1988, institutional reviews of schools by the Department of Education led to 116 indictments and 39 convictions. The Reagan administration “brought fraud charges against two of the largest trade school

operations in the country,” Continental Training Services, Inc. and Wilfred American Education Corp., both of which subsequently closed their schools and declared bankruptcy; the department also “cut off federal aid to six Robert Finance Corp. schools in Florida and fined the company \$1.5 million, the largest penalty ever against a U.S. school.”<sup>27</sup>

In the government’s fraud case against Continental Training Services, the Reagan administration alleged that the Indianapolis-based truck-driving trade school chain enrolled “anyone, regardless of their ‘ability to benefit,’ paying commissions to recruiters of up to \$550 for each student. Some enrollees spoke no English . . . or had physical disabilities that meant they could never drive trucks. The government also alleges the school’s graduation rate was less than 40 percent, its students’ default rate was 57 percent, and its claimed job placement rate of 80 percent was ‘significantly inflated.’”<sup>28</sup>

While leading Democrats in the Senate had decided that action was needed to reduce abuses,<sup>29</sup> the Democratic-controlled House of Representatives remained staunchly opposed to Bennett’s regulatory plans.<sup>30</sup> The most important leader of the countercharge was Augustus Hawkins (D-LA), chairman of the House Education and Labor Committee. Hawkins was a staunch supporter of Historically Black Colleges and Universities (HBCUs), a founding member of the Congressional Black Caucus, and one of the authors of Title VII of the landmark 1964 Civil Rights Act. College presidents at HBCUs, most of which then had default rates above 20 percent, were distraught at the prospect of losing federal student aid under Bennett’s proposal. Of the ninety-five HBCUs receiving student aid in 1986, sixteen schools had a default rate of 50 percent or more and would be immediately targeted for program reviews under Bennett’s proposal.<sup>31</sup>

At the December 1987 Senate hearing, Senator Kennedy had asked Bennett if HBCUs with default rates above 20 percent were “ripping the kids off?” “No, not for the most part,”<sup>32</sup> Bennett replied. But a few months later, deputy undersecretary Bruce Carnes was quoted in the *Wall Street Journal* saying of HBCUs, “It’s possible that their student bodies contain a high level of thieves.”<sup>33</sup> While Carnes later said that his ugly statement was a misquote and that he “regretted the entire affair and the pain it has caused,” the damage was done. Hawkins’s committee began working on its own legislation to shield HBCUs and proprietary schools from losing student federal aid due to steep default rates.

At a House hearing in July 1988, Democratic lawmakers made clear that they felt it was unfair of Bennett to hold proprietary schools or HBCUs responsible for high rates of student defaults. Students, not institutions, were taking out the government loans, and private guaranty agencies and banks were extending the loans to students who were ill-prepared for college. Giving new meaning to the old higher education saw, “institutions don’t fail, students do,” Democratic lawmakers asked, what was a school to do?

Bennett, however, was unapologetic—his goal was “getting as many of the fraudulent or exploitive institutions out of business as possible.”<sup>34</sup> He dismissed the Democrats’ critique of his proposal as little more than classic buck-passing in higher education. “Some of the educational institutions complained that we were putting the entire onus [or] burden on them,” Bennett observed. “Some lending institutions complain that we are putting the entire onus on them. One begins to get the idea here

there is a pattern. Whenever you put an onus on someone, they tend to say ‘why are you picking on me?’ In fact, we have been consistent. We have said that there is shared responsibility here. To paraphrase *Moby Dick*, the ‘universal thump’ has been passed around.”<sup>35</sup>

## The Legislative Bargaining Begins

Congressman Dick Armey (R-TX), a conservative stalwart, introduced the Reagan administration’s legislation to reduce student defaults and applauded the effort. Armey pledged at the committee hearings to “enthusiastically support” the administration’s bill and said it had “been a rather shocking two days to find these revelations” about institutional abuses of the guaranteed loan program.<sup>36</sup> Bennett thanked Armey, and said that his core aim in pressing for accountability was to defend the shared goal of keeping “the unscrupulous . . . from preying on the ignorant and unsuspecting.”<sup>37</sup>

A month after Bennett testified, the House Committee on Education and Labor approved a bill introduced by Hawkins that reversed Reagan administration cuts to financial aid while also prohibiting the department from cutting off aid to high-default schools, as long as they implemented plans for reducing defaults. Not surprisingly, Bennett said that Hawkins’ bill was “seriously objectionable” and promised to recommend a veto if Congress sent it to President Reagan. Under the Hawkins approach, as deputy undersecretary Carnes pointed out at the June hearing, a college could have a 100 percent default rate and continue receiving federal financial aid.<sup>38</sup>

Bennett’s plans ultimately fell prey to election-year politics. In May 1988, Bennett announced that he would step down in the fall and was interested in supporting Vice President George H. W. Bush’s presidential run. Shortly before Bennett stepped down on September 20, the Department of Education formally issued its proposed rules for curbing loan defaults. The proposed rules contained Bennett’s 20 percent default rate for triggering reviews of an institution’s financial aid eligibility. They also would have required institutions which had non-degree training programs to provide information to prospective students on the passing rates of recent graduates on state licensing exams and students’ completion and job-placement rates.

While the proposed rules did not require congressional action, the Reagan administration didn’t want the House to move forward with the Democrats’ legislation to limit the department’s authority and expand the Pell grant program. A week after Bennett stepped down, the Reagan administration and its new secretary of education, Lauro Cavazos, struck a deal: In exchange for House leaders dropping the bill, the Reagan administration would extend the comment period on the proposed regulations until February 1989,<sup>39</sup> ensuring that their fate would be punted to the next administration—which turned out to be Cavazos and his successor as secretary of education, Lamar Alexander. Bill Bennett was disappointed. “We proposed some things [to Congress] with teeth,” Bennett told the *Washington Post*. “And they chickened out of any serious proposals.”<sup>40</sup>

## Timeline of For-Profit Higher Education

Scroll through the below timeline to view the history of for-profit higher education.

## Notes

1. Bennett suggested students should easily be able to survive student aid reductions through “divestiture of some sorts—stereo divestiture, automobile divestiture, three-weeks-at-the-beach divestiture.” Edward B. Fiske, “Reagan’s Man for Education,” *New York Times*, December 22, 1985, <https://drive.google.com/file/d/0B7aqIo3eYEutSUXRajhESEIEQkE/view?usp=sharing>.
2. Robert Rothman, “Bennett Asks Congress to Put Curbs on ‘Exploitative’ For-Profit Schools,” *Education Week*, February 17, 1988, <http://www.edweek.org/ew/articles/1988/02/17/07450039.h07.html>.
3. The FTC rule was struck down in 1979 as the result of a lawsuit filed by the industry. See *Katharine Gibbs School (Inc.) et al. v. F.T.C.*, 612 F. 2d 658, 1980, <http://law.justia.com/cases/federal/appellate-courts/F2/612/658/410250/>. The policy that placed a school on probation, with the possibility of termination, if more than 60 percent of students used federal loans (or if there was a 10 percent default rate or 20 percent withdrawal rate), appears to have been eliminated when the new Department of Education (previously part of the Health, Education and Welfare agency) issued regulations, 45 F.R. 86854, implementing the Higher Education Amendments of 1980.
4. The 1978 Middle Income Student Assistance Act, Public Law 95-506, <https://www.gpo.gov/fdsys/pkg/STATUTE-92/pdf/STATUTE-92-Pg2402.pdf> (enacted during the Jimmy Carter administration), extended eligibility for student loans to for-profit colleges enrolling students without high school diplomas (so-called “ability to benefit” students). Aid to those without a high school diploma had been extended in 1976 (during the Ford administration) to students at public and nonprofit open-enrollment institutions.
5. “In fiscal 1981, Department of Education officials said, 1,058 program reviews of profit-making vocational schools were conducted. By fiscal 1987 that had plummeted to 372.” Henry Weinstein, “Vocational Schools: Poor Being Taken for a ‘Bad Ride,’” *Los Angeles Times*, June 16, 1988, [http://articles.latimes.com/1988-06-16/news/mn-6833\\_1\\_vocational-school-students/5](http://articles.latimes.com/1988-06-16/news/mn-6833_1_vocational-school-students/5).
6. Statement of William J. Bennett, in *Quality in Higher Education*, Hearing before the Subcommittee on Education, Arts, and the Humanities, Senate Committee on Labor and Human Resources, 99th Cong., 2nd Sess., S. Hrg. 99-732, Jan. 28, 1986, 16–17, <https://drive.google.com/file/d/0B7aqIo3eYEutlJSN1Y3aEEyejA/view?usp=sharing>.
7. *Ibid.*, 16.
8. *Ibid.*, 44. The GAO investigation that Bennett referenced can be found at: *Many Proprietary Schools Do Not Comply with Department of Education’s Pell Grant Program Requirements*, Report by the Comptroller General of the United States, U.S. General Accounting Office, GAO/HRD-84-17, August 20, 1984, <https://drive.google.com/file/d/0B7aqIo3eYEutQkILT3IBWGxoQlk/view?usp=sharing>.
9. For a copy of Bennett’s November 4, 1987 statement announcing the new policy on federal student aid eligibility, his “Dear President” letter to college presidents on the proposal, and the Education Department Fact Sheet on the proposal, see *Problems of Default in the Guaranteed Student Loan Program*, Hearings before the Subcommittee on Education, Arts, and Humanities, Senate Committee on Labor and Human Resources, 100th Cong., 1st Sess., S. Hrg. 100-635, December 11 and 18, 1987. Bennett’s press statement is reproduced at pp. 94-99, his Dear President letter is reproduced at 87–88, and the Education Department’s Fact Sheet on the proposal is at 89–93, <https://drive.google.com/a/tcf.org/file/d/0B7aqIo3eYEutbENMVUxvVTYwaXM/view?usp=sharing>.
10. *Ibid.*, 78.
11. Robin Wilson, “For-Profit Trade Schools Defraud Students and Waste Federal Student-Aid Money, Bennett Charges in Scathing Report,” *Chronicle of Higher Education*, 34, no. 23, February 17, 1988, A1, A21.
12. Quoted in the December 1987 Senate hearings, *Problems of Default in the Guaranteed Student Loan Program*, 122, <https://drive.google.com/a/tcf.org/file/d/0B7aqIo3eYEutbENMVUxvVTYwaXM/view?usp=sharing>.
13. Barbara Vobejda, “Bennett to Expel Schools From Loan Program if Too Many Students Default,” *Washington Post*, November 5, 1987, A21, [https://www.washingtonpost.com/archive/politics/1987/11/05/bennett-to-expel-schools-from-loan-program-if-too-many-students-default/c8bf978e-6158-4b41-8380-541a05d6e850/?utm\\_term=.52688fcbab6ed](https://www.washingtonpost.com/archive/politics/1987/11/05/bennett-to-expel-schools-from-loan-program-if-too-many-students-default/c8bf978e-6158-4b41-8380-541a05d6e850/?utm_term=.52688fcbab6ed).

14. Quoted in the December 1987 hearings, *Problems of Default in the Guaranteed Student Loan Program*, 122, <https://drive.google.com/a/tcf.org/file/d/0B7aqIo3eYEutbENMVUxvVTYwaXM/view?usp=sharing>.
15. *Problems of Default in the Guaranteed Student Loan Program*, December 1987 Senate hearings, 13, <https://drive.google.com/a/tcf.org/file/d/0B7aqIo3eYEutbENMVUxvVTYwaXM/view?usp=sharing>.
16. *Ibid.*, 78.
17. *Ibid.*, 79–80.
18. *Ibid.*, 80.
19. *Ibid.*, 82.
20. *Ibid.*, 83–84.
21. Robin Wilson, "For-Profit Trade Schools Defraud Students and Waste Federal Student-Aid Money, Bennett Charges in Scathing Report," *Chronicle of Higher Education* 34, no. 23, February 17, 1988, A21.
22. Barbara Vobejda, "Bennett to Hill: Investigate Trade Schools," *Washington Post*, February 10, 1988, A17. <https://drive.google.com/file/d/0B7aqIo3eYEutZ0RkcThfdWtDOHM/view?usp=sharing>.
23. Robert Rothman, "Bennett Asks Congress to Put Curb on 'Exploitative' For-Profit Schools," *Education Week*, February 17, 1988, <http://www.edweek.org/ew/articles/1988/02/17/07450039.h07.html>.
24. *Ibid.* While Bennett's letter to Senator Kennedy noted the existence of a pattern of abuses in the proprietary industry, as well as the fact that proprietary schools "make up a disproportionate share of institutions with high rates of defaulted student loans," he asserted that "the majority of private career schools seem to produce well-trained students who gets jobs in their field of training and have low default rates on their loans." Joe Davidson, "Trade Schools Cited for Abuses in U.S. Reports," *Wall Street Journal*, February 10, 1988, 33, <https://drive.google.com/file/d/0B7aqIo3eYEut3hIV0N3bGxic1k/view?usp=sharing>.
25. Ezra Bowen, "Education: Taking Aim at Trade Schools," *Time*, February 22, 1988, <http://content.time.com/time/magazine/article/0,9171,966765,00.html>.
26. Quoted in Margot A. Schenet, "Proprietary Schools: The Regulatory Structure," Congressional Research Service, Report 90-424 EPW, August 31, 1990, CRS-17, <https://drive.google.com/file/d/0B7aqIo3eYEutTmxZMF9fa2JPb3c/view?usp=sharing>.
27. Gary Putka, "Rip-Off Tech: Shady Trade Schools Imperil Federal System of Loans to Students," *Wall Street Journal*, March 28, 1989, A1, A12, <https://drive.google.com/file/d/0B7aqIo3eYEutVGIXVGZ1bXRkdFE/view?usp=sharing>.
28. *Ibid.*
29. After the publication of the Pelavin Report, Senator Kennedy consistently maintained that it was essential that reforms be implemented to reduce student default rates at proprietary schools or the student loan program as a whole would lose public support. To cite one example, at an April 3, 1991, hearing on HEA reauthorization, Kennedy stated that "the challenge that we're facing in doing a mathematical formula [to determine cutoff levels for eligibility for Title IV aid] [is] in some instances, there are good schools and yet they have a higher percentage of default. So we want to try to come up with a way of dealing with this problem. If we don't, I think we're in serious trouble both in terms of trying to continue the taxpayer support for the program and meeting our responsibilities in terms of education." *Oversight on Reauthorization of the Higher Education Act of 1965*, Senate Committee on Labor and Human Resources, 102nd Cong., 1st Sess., S. Hrg. 102-1196, 26, <https://drive.google.com/file/d/0B7aqIo3eYEutT2k3QIVoRE1jWnM/view?usp=sharing>.
30. In 2016, Charles Kolb, a Bennett aide in the Reagan years, wrote that "There are future doctoral dissertations waiting to be written about how and why Democrats and Republicans reversed positions on the merits of the for-profit trade-school sector." Charles Kolb, "Student Loan Defaults: Follow The Money?" *Huffington Post*, August 2, 2016, [http://www.huffingtonpost.com/charles-kolb/student-loan-defaults-fo-b\\_11305040.html](http://www.huffingtonpost.com/charles-kolb/student-loan-defaults-fo-b_11305040.html).



31. Lee A. Daniels, "Policy on Student Loan Defaults Defended in Black College Forum," *New York Times*, March 25, 1988, <https://drive.google.com/file/d/0B7aqIo3eYEUtdzVnclUtelBiVGM/view?usp=sharing>.
32. *Problems of Default in the Guaranteed Student Loan Program*, December 1987 Senate hearings, 85, <https://drive.google.com/a/tcf.org/file/d/0B7aqIo3eYEUtbENMVUxvVTYwaXM/view?usp=sharing>.
33. Gary Putka, "Troubling Statistics on Student-Loan Defaults Yield No Agreement on Explanation or Solution," *Wall Street Journal*, March 15, 1988, 74, <https://drive.google.com/file/d/0B7aqIo3eYEUMWd4aVdtWW5CSHc/view?usp=sharing>.
34. *Defaults in the Federal Guaranteed Student Loan Programs*, Hearings before the Subcommittee on Postsecondary Education, House Committee on Education and Labor, June 14, 1988, <https://drive.google.com/file/d/0B7aqIo3eYEUtdGcxN2k0V3d5a28/view?usp=sharing>.
35. *Ibid.*, 20.
36. *Ibid.*, 35–36.
37. *Ibid.*, 34.
38. *Defaults in the Federal Guaranteed Student Loan Programs*, Hearings before the Subcommittee on Postsecondary Education, House Committee on Education and Labor, June 14, 1988, 18, <https://drive.google.com/file/d/0B7aqIo3eYEUtdGcxN2k0V3d5a28/view?usp=sharing>.
39. See Lee A. Daniels, "Education; Government Delays Tougher Loan Default Rules," *New York Times*, September 28, 1988, <https://drive.google.com/file/d/0B7aqIo3eYEUteWdWdElhMm5VLVU/view?usp=sharing>, and Mark Walsh, "Cavazos Cautions Trade Schools Over Defaults," *Education Week*, February 15, 1989, <http://www.edweek.org/ew/articles/1989/02/15/08170045.h08.html?tkn=UOSFvRNp2ZNV%2BpvuJcSKynMTqi5AdpAqF46s>.
40. Kenneth J. Cooper and Michael Weisskopf, "Bennett Says Panel Report Impugned Him—Anonymously," *Washington Post*, May 22, 1991, A19. <https://drive.google.com/file/d/0B7aqIo3eYEUtVIIYbXRHSI82TUE/view?usp=sharing>.



## David Whitman, Contributor

David Whitman was the chief speechwriter for U.S. Secretary of Education Arne Duncan from mid-2009 to November 2014. Prior to that, he covered social policy for U.S. News & World Report for nearly two decades, from 1985 to 2003. He is the author of the award-winning book, *Sweating the Small Stuff: Inner City Schools and the New Paternalism* (Thomas B. Fordham Institute, 2008), a two-year study of six high-performing inner-city secondary schools and their successful educational models. His articles have appeared in the *Wall Street Journal*, *Washington Post*, the *Atlantic*, *New Republic*, and numerous other publications. Currently, he is president and founder of Whitman Wordsmithing & Communications.



Number 2: Scores of individuals have come to me who are far worse off for ever having become a part of any of these programs. There are those who believe that if our student loan and Pell Grant programs help 1 in 10, or even 1 in 20 people they are worth it. Many people in Congress carry that understandable view.

Here are some examples:

"Dear Congressman Gordon,

My name is William L. Merritt and five years ago, when I was 18 years old, I made a very stupid mistake. I enrolled in USA Training, a truck driving school. They sent a representative to my house, and to make a long story short, I got sucked in."

William goes on to state:

"To sum it all up my credit is ruined, I'm laid-off from my job."

OR:

"Dear Congressman Gordon: ...

#### REPORT THE CYCLE OF SCANDAL AT FOR-PROFIT COLLEGES

# When President George H. W. Bush “Cracked Down” on Abuses at For-Profit Colleges

MARCH 9, 2017 — DAVID WHITMAN

*This report is the fourth in a TCF series—The Cycle of Scandal at For-Profit Colleges—examining the troubled history of for-profit higher education, from the problems that plagued the post-World War II GI Bill to the reform efforts undertaken by the George H. W. Bush administration.*

When George H. W. Bush became president on January 20, 1989, he inherited from the Reagan administration some unfinished business in higher education. Bill Bennett, President Reagan’s secretary of education, had launched an effort to shut down “proprietary schools [that] deserve to be eliminated based on their irresponsible treatment of students.”<sup>1</sup> His efforts were largely stymied, however, by Democrats who controlled Congress. But if the rhetorical assault on for-profit schools reached its apex in the Reagan administration during Bennett’s tenure, the GOP’s regulatory and legislative crackdown on for-profit schools peaked in George H. W. Bush’s administration, under the leadership of Secretary of Education Lamar Alexander.

The abuses by trade schools and the resulting student loan defaults that plagued the industry during the Reagan administration continued during the Bush administration, with the for-profit sector’s student loan default rate reaching an all-time high of 41 percent in 1990. Not surprisingly, media coverage of trade school abuses boomed too. Bruce Chaloux, a well-known advocate for online learning, noted that in the years preceding reforms adopted in 1992:

*the media have provided story after story of misuse, abuse, and fraud within the system, ranging from the enrollment of prisoners to the falsification of records and signing up of nonexistent students to pad enrollments. After bilking the federal government, these educational entrepreneurs would close up shop, move their operations, change institutional names, or take other evasive measures to stay ahead of federal regulations.<sup>2</sup>*

In some ways, the most outrageous scams, many of which occurred at small, storefront schools, created a false memory of the era. Lawmakers in the early 2000s, who watched as big corporate chains of colleges grow, mistakenly believed that the abuses of the 1980s did not involve big corporate players. That impression was encouraged by for-profit lobbyists, who told legislators that they need not worry about a repeat of past scandals: “the industry is different now,” was the mantra. The reality, however, is that several big chains rose high and died in disgrace in the 1980s and early 1990s, including one that later returned to life as Corinthian Colleges.<sup>3</sup> Abuses in the 2000s led to Corinthian’s collapse in 2014.<sup>4</sup>

## THE CYCLE OF SCANDAL AT FOR-PROFIT COLLEGES SERIES

Read the series of papers focusing on the repeated for-profit college scandals of the past sixty years.

When President George H. W. Bush “Cracked Down” on Abuses at For-Profit Colleges

The Reagan Administration’s Campaign to Rein In Predatory For-Profit Colleges

Vietnam Vets and a New Student Loan Program Bring New College Scams

Truman, Eisenhower, and the First GI Bill Scandal

The For-Profit College Story: Scandal, Regulate, Forget, Repeat

The GOP Has a Long History of Cracking Down on “Sham Schools”

## The Press Hits Pay Dirt in Covering Abuses

Illustrative of the coverage of for-profit misdeeds was a multi-part series that started in May 1989 in the *Houston Chronicle*, the hometown paper for President Bush’s former congressional district. Among other scandals, the series recounted the story of two for-profit schools that bussed in the homeless from shelters in Dallas, San Antonio, and New Orleans to Houston, signed the homeless students up for federal financial aid, and then largely left them on the streets for Houston charities to house and shelter. When one school owner finally agreed to stop the practice of long-distance recruiting for homeless students, he explained “we have taken our share.”<sup>5</sup> Another story told of a nine-school chain that “cheated thousands” by “doing a disappearing act with students’ dreams.”<sup>6</sup> Contrasting the for-profit schools with community colleges, the “Signed Up, Sold Out” series found that:

*widespread abuses promote human misery, encourage consumer fraud and bilk taxpayers who underwrite the guaranteed student loan program. Most trade schools use commissioned sales people—usually in large numbers—who sometimes lure unsophisticated students from shelters, blood banks, streets, unemployment lines and other places gullible or desperate people are likely to gather.*

*In discussing financial assistance with prospects, recruiters trying to make heavy quotas often blur the distinction between government grants and loans that must be repaid, and are instructed to use sales techniques that shame people for being poor and undereducated. . .*

*[S]ome schools routinely manipulate the testing so that almost no students who qualify for federal aid are turned down even if they can barely read and write.<sup>7</sup>*

A slew of similar series in other major newspapers from across the country had preceded the *Houston Chronicle*’s investigation, including a two-part series in the *Los Angeles Times*, “Vocational Schools: Poor Being Taken for a ‘Bad Ride,’” and “Painful Lessons: Vocational School Folds, Leaves Students in Limbo.”<sup>8</sup>

## Senator Sam Nunn Opens an Inquiry

Meanwhile, in Congress, the Senate Permanent Subcommittee on Investigations, chaired by Senator Sam Nunn (D-GA), opened an inquiry into the problems of the guaranteed student loan program. Senator Nunn was a fiscal conservative, a Southern Democrat, and the powerful committee chairman of the Senate Armed Services Committee. The investigation led to eight days of hearings from February to October 1990, at which Nunn’s subcommittee heard from nearly fifty witnesses, who recounted tales of extensive fraud and abuse at for-profit schools.

A recruiter for the North American Training Academy truck driving school who testified at the hearings was one of the many witnesses to describe a seemingly endless list of abuses perpetrated by for-profit postsecondary institutions. “In the proprietary school business what you sell is ‘dreams,’ and so 99 percent of my sales were made in poor, black areas [at] welfare offices and

unemployment lines and in housing projects,” the recruiter reported. “My approach was that ‘if [a prospect] could breathe, scribble his name, and had a driver’s license, and was over 18 years of age, he was qualified for North American’s program.’”<sup>9</sup> The salesman even dragged one potential customer down to a pawn shop so he could rustle up enough cash to make a down payment for the program. Other recruiters admitted they had used phony addresses, like, “403 Cant Read, Pritchard, Alabama,” when signing students up for loans, making it all but impossible for banks or the federal government to find the students when guaranteed loans came due.<sup>10</sup>

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I used to buy the rhetoric that there were just a few bad apples, but then I discovered that there were orchards of bad apples.

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The Nunn committee hearings made it difficult for career school advocates to continue maintaining that the problems of the sector were just isolated to a few predatory schools. The president of the Massachusetts Higher Education Assistance Corporation, a major guarantor of federal student loans, told the members of the Nunn committee: “I used to buy the rhetoric that there were just a few bad apples, but then I discovered that there were orchards of bad apples.”<sup>11</sup>

The Senate committee’s investigation was very much a bipartisan affair.<sup>12</sup> The ranking Republican member on the committee, Senator William Roth (R-DE), fumed at one hearing that “rather than allowing these young people to improve themselves, [unscrupulous school operators] actually leave [them] in a worse position than when they started. Because of the deceptive practices of such schools, these students have to pay for an education they never received.” Students who lacked adequate training, Roth added, “are not able to get jobs by which they can repay [their] federally guaranteed loans and thus suffer the added humiliation of seeing their credit ratings destroyed in the process.”<sup>13</sup>

## The Financial Damage from a Runaway Industry

In addition to the pressure generated by media coverage and the Nunn committee hearings, burgeoning budget deficits and bankruptcies in the for-profit sector made it almost impossible for Congress or the Bush administration to duck the issue of soaring default rates at career schools, for which the federal government eventually had to pick up the tab. In 1988, the ten proprietary schools that collected the largest amounts of federal student aid, over \$1 billion, had an average student loan default rate of 36 percent—the exact same default rate that Corinthian Colleges had twenty years later, in 2008.

The shortchanging of students significantly worsened when many schools closed, leaving the school’s bank accounts empty, even as many school executives stuffed their own pockets with cash provided by taxpayers. In the two and a half-year period from October 1985 to June 1988, 167 proprietary schools certified to participate in Title IV student aid programs closed. Fifty-three of those schools closed before their students received all educational services—leaving as many as 10,000 students in the lurch and \$30 million in unpaid and unfulfilled loans, for which either the students or the federal government would be left holding the bag.<sup>14</sup>

Big for-profit chains—not just mom-and-pop trade schools—were among the schools that shuttered their doors. Following audits or investigations by the Office of the Inspector General (OIG) at the Department of Education, four of the five career schools who received the most federal dollars in student aid had either closed their doors by mid-1991 or stopped receiving federal funds, and the fifth for-profit chain had closed most of its schools after declaring bankruptcy.<sup>15</sup>

Perhaps the biggest collapse was that of the National Education Corporation (NEC) for-profit chain, which owned as many as eighty-nine schools in the 1980s. At the time, “NEC was the largest provider of for-profit education in the United States, dominating the market and attracting glowing notice from sector analysts.”<sup>16</sup> However, after a decade of steady growth and profits, the \$450 million corporation unexpectedly posted a loss in 1990. NEC’s chief executive officer was fired, and shareholders sued, alleging NEC had concealed its financial plight. To cover financial losses and restore shareholder confidence, NEC started rapidly selling off its campus-based schools. By 1995, NEC was down to sixteen schools. Those schools were finally purchased by a group of former NEC executives—who used them to form a new for-profit chain, Corinthian Colleges,<sup>17</sup> which, twenty years later, would collapse in much the same manner.<sup>18</sup>

Compounding the problem of school closings, the scope of the student loan default problem mushroomed. With the creation in 1982 of a new federal student loan program—the Supplemental Loans for Students (SLS) program—and the program’s liberalization under President Reagan, the volume of federally backed student loans was skyrocketing. The SLS program made extra loan funds available to older students. With limits on the program relaxed, for-profit schools saw a huge new pool of federal student aid open up, and rushed to take advantage of the opportunity. In a matter of months, SLS loans to proprietary school students exploded. In 1986, 8 percent of all SLS borrowers were proprietary school students; two years later, that figure stood at 62 percent.<sup>19</sup>

The final straw in the case for regulating the for-profit sector was the sudden collapse in 1990 of the largest guarantor of federal students loans, the Higher Education Assistance Foundation (HEAF). As a direct result of HEAF guaranteeing a large portfolio of loans to students at for-profit schools, HEAF collapsed when it could no longer pay banks full reimbursement for the soaring numbers of students who were defaulting. The U.S. Department of Education bailed out the banks and shut down HEAF at a first-year taxpayer cost of \$212 million.<sup>20</sup>

Collectively, the news stories about students misled by schools, the Nunn committee hearings, the shuttering of a number of the nation’s largest for-profit chains, the runaway growth in an newly created auxiliary loan program, and the collapse of a giant student loan guarantee agency all underscored the urgency of reigning in for-profit schools for the Bush administration.

## Lawmakers Respond to the Crisis

To address the costs of sudden school closures, the Bush administration proposed regulations in June 1989—never finalized—that required proprietary schools to establish “teachout” arrangements with another school offering a similar career program. Teachout provisions enabled students to complete their course of study at the same cost if the original school closed. The

Department of Education’s proposed regulations plainly reflected the fact that, a quarter century before Corinthian Colleges and ITT Technical Institutes folded in the Obama era, the problem of students left stranded mid-stream and deep in debt after for-profits closed was already common enough to merit federal regulation.

On Capitol Hill, a few key Democratic lawmakers who had previously defended the for-profit colleges began joining with Republicans such as Representative Marge Roukema (R-N.J.), who had called for a regulatory and legislative crackdown on “the growing number of scam trade schools.”<sup>21</sup> In August 1990, Representative Pat Williams (D-MT), then chairman of the House Subcommittee on Postsecondary Education, told the *New York Times* that rising defaults, “taken together with the scandals that have gone on in some of these trade schools, has sent out a clarion call for tighter regulations and stricter laws.” Williams believed that a minority of career schools abused the student loan program “but it’s such a large minority that it’s creating an educational crisis in this country.”<sup>22</sup>

As the country entered a recession, lawmakers were eager to reduce a growing national deficit. The burgeoning student loan program was among the first programs on the congressional chopping block. In an attempt to control spending and increase accountability, Congress passed—and President Bush signed—a budget bill with bipartisan support in November 1990 which ejected from the federal aid programs any school with a default rate above 35 percent, with the cutoff scheduled to drop to 30 percent in 1993. As a result, 607 schools were eventually barred from further participation.<sup>23</sup> The 1990 law represented the delayed triumph of Reagan’s Secretary of Education Bill Bennett. Congress—which had balked at the idea three years earlier—adopted “a plan to control defaults that differs from Bennett’s original idea only in the details,” the *Washington Post* reported.<sup>24</sup>



# Taking the Stick to Student Loan Losses

*High Default Rates Will Bring Aid Cutoff; Trade Schools Face Most Severe Initial Impact*

By Kenneth J. Cooper  
Washington Post Staff Writer

When William J. Bennett urged banning schools with high default rates from student loan programs three years ago, his controversial proposal ran into congressional opposition and was ultimately withdrawn by his successor as education secretary, Lauro F. Cavazos.

Cavazos said he opposed such "an automatic cutoff" as a way to curb rising student defaults. Instead, the Education Department, under his direction last year, issued more lenient regulations that centered on requiring high-default schools to implement "default management plans."

But Congress has just overruled Cavazos, adopting a plan to control defaults that differs from Bennett's original idea only in the details. Beginning next July, the department will ban federally guaranteed student loans at colleges and trade schools with default rates over 35 percent, a cutoff level that drops to 30 percent in 1993. Bennett's proposal had been 20 percent.

Congressional aides said pressure to reduce the budget deficit led to the major policy reversal, which came last month in the budget reconciliation bill. They said no alternative could be found to meet the bipartisan goal of saving about \$2 billion in the student loan program over five years. The provisions adopted are projected to save \$1.7 billion.

"It became clear the only way to get those numbers was to do the cutoff," a House aide said.

The initial impact will fall hardest on for-profit trade schools, which enroll large numbers of low-income students and have the highest default rates in postsecondary education. Because many trade schools are dependent on federal student aid, losing federal loan funds could force some schools to close.

The most recent default rates available, for fiscal 1988, show that, overall, 16 percent of students did



BY PETER HOCKY—THE WASHINGTON POST

*"We believe what has happened ... will help students, not hurt them."*

—Ted Sanders, education undersecretary

not repay their loans. The default rate was 27 percent at for-profit trade schools, about 15 percent at community colleges and 6 percent at four-year colleges. Student defaults cost the government about \$2.4 billion in the last fiscal year.

The Education Department estimates that next year, 268 private trade schools will be among the 333 institutions banned from loan programs. The number of trade schools is expected to rise to 399 out of the 516 institutions banned in 1993, according to the department.

Fewer than two dozen four-year colleges are projected to lose their eligibility for student loans. The department expects more two-year colleges to be affected—57 next year and 94 in 1993. Like trade schools, two-year community colleges often enroll many low-income,

disadvantaged students who are more likely to default.

Congress exempted two categories of schools because they were created to serve disadvantaged populations: about two dozen colleges controlled by Native American tribes and 117 historically black institutions. Their exemption lasts until 1994.

Other schools could escape sanctions if they win an appeal to the education secretary based on "mitigating circumstances," as yet undefined in regulations.

But there is virtually nothing that schools can do to reduce the default rates that will be considered in the first round of sanctions. The new law in 1991 targets schools at which defaults consistently exceeded 35 percent in fiscal 1987, 1988 and 1989. Calculation of the

rates lags two years because of mandatory waiting periods before students begin repayment or are declared in default.

The issue still being debated is whether the tougher sanctions will reduce the opportunities for disadvantaged students to attend trade schools or community colleges. Critics raised a similar concern about Bennett's proposal.

Education Undersecretary Ted Sanders said the sanctions would actually help disadvantaged students because they would not have student loan debts after attending poor quality schools that trained them inadequately for jobs. In his view, a high default rate is one indicator of poor academic quality.

"When we get the whole package implemented, students are going to be in institutions that are offering a quality program," Sanders said. "We believe what has happened ... will help students, not hurt them."

Stephen J. Blair, a former department official who now represents trade schools, disagreed with Sanders on both points. Blair argued that a high default rate merely reflects enrollment of low-income students and that, as a result of the new policy, some trade schools will alter their student mix so that they can remain eligible to receive payment in federally backed loans.

"The budget reconciliation made a major hit on poor people. What we are doing is eliminating poor people," said Blair, president of the National Association of Trade and Technical Schools. He predicted some trade schools will "walk from serving high-risk students" by closing city branches and moving to the suburbs, where they can find students less likely to default.

Charles V. Saunders, senior vice president of the American Council on Education, said the impact on postsecondary opportunities for low-income students could not be predicted. His organization, the main lobby for higher education, has objected to an "arbitrary" cutoff based on default rates ever since Bennett made his proposal in 1987.

ORIGINALLY APPEARED IN THE WASHINGTON POST, NOVEMBER 12, 1990

Lamar Alexander, who assumed the position of secretary of education under President Bush in March 1991, kept up the pressure on the for-profit sector. After less than a month on the job, Alexander went to Capitol Hill to propose increased oversight and regulation (a far cry from his more recent opposition to almost every effort by the Obama administration to

increase accountability for taxpayer dollars at for-profit schools).<sup>25</sup> In his testimony, Alexander proposed lowering the cutoff point for when institutions would lose eligibility for federal student loans from a 35 percent default rate to 25 percent, and doubling the course length minimum to six months or 600 hours, for programs to retain their eligibility for guaranteed student loans. To curb recruiting abuses, Alexander also proposed banning the use of commissions or bonuses to pay admission and financial aid staff based on the number of students they enrolled or the number of students enrolled in student aid.

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“we must ask not only ‘do our students have access,’ but also ‘access to what?’”

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All three proposals would have overwhelmingly impacted for-profit schools. Secretary Alexander spoke of the serious problem of “institutional abuse” of federal aid, insisting “we must ask not only ‘do our students have access,’ but also ‘access to what?’” Alexander said that he would be looking to see if students were receiving “Access to an institution that produces mostly dropouts, not graduates, or produces graduates that are not employable in the fields for which they have been trained.”<sup>26</sup>

Alexander’s attempt to seize the initiative in curbing student defaults and reducing institutional abuses was soon overtaken when the Nunn committee issued its final report in May 1991. The searing report, adopted with no negative votes, was even harder on the for-profit industry than the Teague report, the House Committee investigation into the GI Bill abuses nearly four decades earlier. The senators found that the federal student loan program:

*particularly as it relates to proprietary schools, is riddled with fraud, waste, and abuse, and is plagued by substantial mismanagement and incompetence. . . fail[ing] . . . to insure that federal dollars are providing quality, not merely quantity, in education. As a result, many of the program’s intended beneficiaries—hundreds of thousands of young people, many of whom come from backgrounds with already limited opportunities—have suffered further. . . . Victimized by unscrupulous profiteers and their fraudulent schools, students have received neither the training nor the skills they hoped to acquire and, instead, have been left burdened with debts they cannot repay.*<sup>27</sup>

The Bush administration welcomed the Nunn committee report and its twenty-seven recommendations to crack down on abuses in the student loan program, which included banning the use of federal grants and loans to pay for correspondence courses and requiring private accrediting bodies to impose minimum quality standards on schools. Michael Farrell, the acting assistant secretary for postsecondary education, told the *Washington Post* and the *New York Times* that the Nunn report “will make my job easier.”<sup>28</sup>

Just a day after the release of the Nunn committee’s report, the House Subcommittee on Postsecondary Education held its hearing on HEA reauthorization and integrity in the student loan program. Rather than devolving into the then-familiar partisan differences on regulating for-profit schools—with Republicans arguing for more accountability and Democrats

insisting that for-profit schools positively impacted underserved populations—the hearing took a very different turn. Two Democratic lawmakers, Maxine Waters (D-CA) and Bart Gordon (D-TN), testified in favor of a crackdown on predatory for-profit institutions, largely based on their personal exposure to students from career schools.

Representative Gordon, a moderate Democrat from Alexander’s own state of Tennessee, had achieved the distinction of becoming the first congressional representative to use a hidden camera for a news exposé of for-profit schools. In the past, Gordon had “enthusiastically” supported big increases in student financial aid, regardless of the issue of accountability requirements for using federal dollars. But after HEAF collapsed in 1990, Gordon looked into the issue more closely and quickly discovered abuses “broader and deeper than I’d ever imagined.”<sup>29</sup> He soon decided to work together on a report on for-profit schools with the investigative reporting team from *Exposé*, a new NBC newsmagazine program hosted by anchor Tom Brokaw. *Exposé*’s show on March 10, 1991, “The Trade School Scam,” vividly depicted student aid abuses at for-profit schools. Representative Joseph Kennedy (D-MA) recalled watching the program as NBC correspondent Brian Ross “went into one school where they were taking alcoholics, people with drug abuse problems and homeless people and . . . having them apply for Federal aid. And then as soon as the individual would make the application, they’d be given \$100, sent right back out the door, and then the school would collect several thousand dollars from the federal government.”<sup>30</sup>

Representative Gordon, doing his best to appear like a working-class Joe after going unshaven for three days, posed as a prospective student interested in enrolling at Draughon’s Junior College, a large Tennessee for-profit school with a 66 percent default rate. With a hidden camera in his shoulder bag, Gordon recorded a conversation with a school salesman about the school’s program to train truck drivers. The salesman told Gordon that it was easy to get a guaranteed loan to pay for the \$5,400 tuition to learn how to drive a truck. Gordon testified at the House Subcommittee on Postsecondary Education hearing that he had been “hot-boxed. I was told I could get free money. . . . It was simply an effort to not tell me I had any kind of responsibility [to repay the loan], but rather, to get me to enroll there.”<sup>31</sup>

As far as Representative Gordon was concerned, proprietary school salesmen were little more than “bounty hunters.”<sup>32</sup> The remedy for the abuses, Gordon testified, was to tie eligibility for federal aid to “some kind of benchmark for success . . . completing courses, graduation rates—that’s a benchmark. Getting a job, job placement, that’s a benchmark. Paying back your loan, that’s a benchmark.”<sup>33</sup>

Next up on the witness stand was Representative Waters, who had her own regulatory prescriptions for addressing abuses at for-profit schools.

In her Los Angeles district, Waters regularly sponsored job workshops in public housing projects and other community forums to help constituents prepare resumes, search for jobs, and practice for interviews. At the workshops, Waters began asking attendees “how many people have been ripped off by vocational schools,” and frequently had 60 percent to 70 percent of people raising their hands. Waters had spoken to hundreds of constituents who had been “cheated” by proprietary schools, and hundreds of her constituents had filled out questionnaires that attested to the “unfair recruitment practices, shoddy training,

inadequate placement services, and utter failure of these so-called schools to provide any meaningful education leading to jobs.”<sup>34</sup> For the better part of four years, Waters had been accumulating boxes of affidavits from constituents who complained they had been the victim of fraudulent practices by for-profit schools.<sup>35</sup>

Waters’ portrayal of for-profit schools was so sweeping that she warned her Democratic colleagues: “My testimony may be shocking to some of you, and particularly to those of you who kind of warned us in advance that you feel very strongly about your support for some of these private postsecondary schools.” But, she added, she was ready to bring in her boxes of affidavits from dissatisfied students for her colleagues to examine first-hand.

Waters advocated prohibiting for-profit schools from relying totally on federally aided students, banning commission-paid recruiting, requiring schools to disclose completion and job placement rates before students enroll, and canceling loans when a school closes and leaves students unable to complete their program of training. Waters also proposed a substantial expansion of the then-narrow “borrower defense” rules, so that students harmed as a result of a violation of federal law could bring action for debt relief, and assert the same defenses to repayment of a student loan against the federal government that the student could have asserted against a school that closed or violated federal law.<sup>36</sup> “It is as appalling as it astonishing,” Waters told the committee, “that proprietary vocational schools need not satisfy any performance standards. Theoretically, a school could have no graduates, could have provided no training actually leading to employment for its students, and could nonetheless continue to be eligible to participate in the federal loan and grant programs.”<sup>37</sup>

Of some note, the May 1991 House hearing marked one of the first occasions where Representative Steve Gunderson (R-WI), now the leader of the career school trade association, questioned for-profit school representatives about how to improve accountability at for-profit schools. Gunderson, a moderate Republican, had a personal exposure to career schools that most lawmakers lacked. After graduating from the University of Wisconsin in Madison, he had gone on to earn a certificate in broadcasting from the for-profit Brown School of Broadcasting.

Unlike his Republican colleague on the committee, Representative Roukema, Gunderson did not level a broadside attack on the for-profit industry. Still, he did make clear that he believed for-profit schools needed to implement more far-reaching reforms to reduce student loan defaults and curb abuses. In an exchange with Anthony Resso, the chairman of the Association of Accredited Cosmetology Schools, Gunderson challenged Resso’s assertion that Congress had “gone too far”<sup>38</sup> in responding to public concerns about waste and abuse when it enacted provisions in 1990 to eliminate schools with high default rates from the student loan program. Gunderson told Resso: “We simply cannot take a reauthorization bill to the floor that doesn’t do something in addition to what’s already been done to deal with the issue of defaults.”

Moreover, Gunderson rejected states’ rights arguments and the claims of private accrediting agencies that the federal government should not have the authority to limit institutional access to the student aid program. “Other than health care,” Gunderson told Resso, “higher education is the only area where the government is expected to be the third party payee, but it has absolutely no ability to control the cost of the program. And you’re suggesting we ought to have no ability to control who has access to that program. In 1991, we don’t have that luxury.”<sup>39</sup>

# The Democratic Chairman Balks

While there was new bipartisan support to take action to address abuses, some traditional pro-labor Democrats continued to defend the for-profit industry, most notably the powerful chairman of the House Education and Labor Committee, Representative William Ford (D-MI). Like Representative Gunderson, Ford had some personal experience with career schools. In 1940, when Ford was just fourteen years old, his parents enrolled him in the Henry Ford Trade School in Detroit, where he was taught how to use the tools he would need to become a tool and die maker for Ford Motor Company. Despite later going on to earn a law degree, Ford said his time at the trade school left an indelible impression on him and marked the first time he had worked side-by-side in a school with black students. He told the committee hearing: “Many people have no choice but to go [to trade schools] and they have no options except going to the military or going to schools that, for a fee, will try to teach them a specific level of skills.”<sup>40</sup>

Ford’s view was that it is difficult if not impossible to set standards for postsecondary institutions that effectively distinguished when institutions were genuinely educating students. Moreover, when Congress and federal officials had tried to do so in the past, the results had often backfired. “Part of the problem,” Ford stated during the committee’s hearings, was that public officials “quickly accept the idea that there are some kinds of schools that you can measure the people coming out of and decide whether the school is a good school [based] on the product it turns out.”<sup>41</sup> Only about two-thirds of people who took the bar exam in Michigan passed it on the first try, Ford noted. But if just two-thirds of the graduates of a cosmetology school passed Michigan’s beautician license exam, “we would be condemning the devil out of them.”<sup>42</sup>

Years earlier, Ford had been infuriated when the Veterans Administration (VA) decided to end educational benefits at “weekend college” for veterans who worked full-time during the week. One of Ford’s alma maters, Wayne State University in Detroit, had run a successful weekend college program to train veterans as automotive workers, but the VA determined that weekend college programs failed to meet the VA’s minimum hour requirements for maintaining eligibility for financial aid. Some 12,000 Vietnam vets lost their opportunity to use VA educational benefits to attend weekend college, Ford said, because of the VA’s “pig-headed bureaucratic approach.”<sup>43</sup>

Like Republican lawmakers today, who assert it is unfair to target for-profit schools with accountability measures, Ford feared that if Congress tried “to apply one standard to one kind of school [in the guaranteed student loan program] and one to another, that we’re going to be in court and found to be discriminatory.”<sup>44</sup> As far as Ford was concerned, treating proprietary schools differently than any other postsecondary institutions was tantamount to having the government engage in “class warfare.”<sup>45</sup> Representative Joseph Gaydos (D-PA) agreed with Ford: “Some people have taken the easy route and found a scapegoat: career training schools. Some people believe that the sole purpose of these schools is to rip off the government through student loan programs. This is completely untrue and false.”<sup>46</sup>

The political appeal of for-profit colleges among labor liberals and minority lawmakers stemmed in part from the demographic of disadvantaged students who attended for-profit schools. But the vast political sway of for-profit schools also stemmed from their geographic dispersion. For-profit schools were—and today remain—located in virtually every lawmaker’s district. Except

in egregious cases of fraud, many congressmen were reluctant to criticize local trade school owners in their district who were preparing constituents for careers, and who often hired lobbyists and gave generous campaign contributions. At a hearing in 1995 on proprietary school abuses, Senator Nunn asked David Longanecker, then the assistant secretary for postsecondary education, if Longanecker had been “able to handle the political pressures when you start removing a school” from the federal aid programs. Longanecker dryly replied: “One of the things I have learned is there are lots of bad institutions in the country, but none are in anybody’s congressional district.”<sup>47</sup>

High-profile lobbyists, then as now, aided the industry’s cause. The National Association of Trade & Technical School (NATTS) \$1 million-a-year lobbying campaign, launched in 1989, included hiring Bob Beckel, the campaign manager for Senator Walter Mondale’s (D-MN) 1984 presidential run, to organize trade schools into statewide networks under the moniker of “Skills 2000” organizations, each of which courted local congressmen and their staffs. From the GOP, NATTS president Stephen Blair hired former Reagan White House aide Haley Barbour to dampen the appetites of Republican lawmakers and the Bush administration for accountability measures that would primarily impact for-profit schools.

At the same time, NATTS ginned up direct mail efforts, generating “thousands of postcards [to congressmen] from students complaining that their student loans were going to be taken away”—which prompted fifteen members of the House Higher Education Subcommittee to write an angry letter accusing the association of an “unwarranted attempt to place fears in the hearts of students.”<sup>48</sup>

Last but not least, increased oversight of for-profit schools was often avoided because, for distinct reasons, these institutions appeal to bipartisan sympathies. “Republicans tend to see these institutions as businesses and say therefore we ought not to be too harsh on someone who’s trying to make buck,” Thomas Wolanin, Representative Ford’s staff director told the *New York Times* in 1992. “Democrats tend to see them as points of access to training for some lower-income students.”<sup>49</sup>

While abuses were predominantly occurring at for-profit schools in the early 1990s, public and nonprofit colleges were getting caught up in many of the proposals for tightened oversight of higher education. And as for-profit schools garnered a larger share of federal student aid dollars, competition for resources between the for-profit sector and the traditional higher education sector also increased. In response, some of the associations representing traditional colleges floated the idea of having a separate federal student aid program for the for-profit schools.<sup>50</sup> For-profit association leaders responded aggressively, going so far as to claim that having their own separate funding stream would amount to “educational apartheid.”<sup>51</sup> The key Democratic committee chairmen in both the House and Senate announced they would not support separate programs.<sup>52</sup> Representative Ford was especially adamant, saying that he was “absolutely never going to support” the idea of differential funding and regulation for different sectors of higher education.<sup>53</sup>

Two years later, the idea of separate treatment of for-profit colleges was brought up again, in a somewhat different form, this time by Secretary of Education Lamar Alexander. In a letter commenting on the House committee bill to renew the Higher Education Act (HEA), Alexander wrote that Congress should distinguish between oversight of “vocational” programs—the route through which for-profit schools are eligible for federal aid—and other types of postsecondary “collegiate” degree-



granting programs. For “collegiate programs,” Alexander favored maintaining oversight by private accrediting agencies. But for vocational programs, he called for strengthened state oversight and an expanded federal role.<sup>54</sup> “The Federal Government should set the parameters for certain standards, such as outcome measures, for use by States in carrying out their increased responsibilities,” Alexander wrote. “The scope of a State’s review should explicitly include institutional performance in student outcome areas such as program completion and job placement rates.”<sup>55</sup>

Not surprisingly, Representative Ford rejected Alexander’s proposal for differential regulation by sector. But with the support of Senate Democrats, Congress did take up Alexander’s idea to expand state and federal authority for program reviews and certifying ongoing eligibility for student aid at for-profit schools. Unlike the House bill, the Senate bill to extend the Higher Education Act gave states and the federal government substantial new powers to control the exit gate from student aid programs, even as private accrediting agencies maintained their traditional gatekeeper role over the entry gate to student aid programs.

The Senate bill’s provisions—ultimately adopted in 1992—created State Postsecondary Review Entities (SPREs), which were intended to be a “weapon to attack fraud and abuse” and high-default rates in the for-profit sector.<sup>56</sup> In her case study of the rise and rapid fall of SPREs, Terese Rainwater, the former national director of the State Scholars Initiative, notes that “In their original conception, SPREs would be part of a joint federal/state effort to rein in the proprietary sector of postsecondary education. . . . The SPRE concept was the George H. W. Bush administration’s solution to the problems of better consumer protection and better state oversight in postsecondary education.”<sup>57</sup> Under the 1992 act, state education agencies had to conduct reviews of institutions in their states that, among other red flags, had a student-loan default rate of at least 25 percent, or a default rate of at least 20 percent at institutions where more than two-thirds of students received federal aid, or more than two-thirds of expenditures paid with student aid or Pell Grants.

More striking, in light of the controversy over the Obama administration’s gainful employment regulation, the 1992 amendments to the Higher Education Act effectively created the first statutory requirement for states to develop debt-to-earnings tests like those promulgated by the Obama administration to assess if career programs were in fact producing gainfully employed graduates who could pay off their student debt from their earnings. Under the 1992 law, if an institution offered a program designed to prepare students for gainful employment, the SPREs had to develop a standard to determine whether the tuition and fees charged for that program were reasonable, given the amount of money that a student who successfully completed the program might reasonably be expected to earn.<sup>58</sup> In 1994, after seeking input on how to implement the new law, Richard Riley, President Bill Clinton’s secretary of education, asked states to examine whether tuition at certain vocational programs was reasonable given their likely future earnings. He explained that “institutions that purport to offer education to prepare students for occupations ought to be able to substantiate that the education they provide does just that . . . for students who receive loans for their education, it is reasonable to expect that they will qualify for positions that will enable them to repay their loans.”<sup>59</sup>



The traditional higher education community fiercely opposed SPREs, on the grounds that they would expand state authority to review and bar programs from receiving federal student aid.<sup>60</sup> In November 1994, Republicans in the House, led by Speaker Newt Gingrich, introduced their Contract with America, promising to reduce government regulation, after Republicans gained control of both houses of Congress for the first time since the 1950s. One of the first regulations that Republican lawmakers eliminated in March 1995 were the SPRE provisions, the 1992 GOP prescription of the Bush administration for improving consumer protections and reducing abuses at for-profit schools. By withdrawing funding and ending implementation of the SPREs, Republicans in Congress effectively blocked states from implementing their own gainful employment standards for career programs.

# Trade Schools Near Success As They Lobby for Survival

By **JASON DePARLE**  
Special to The New York Times

**WASHINGTON, March 24 —** First came newspaper exposés, then a Senate investigation, criminal trials and even a Congressman incognito, carrying a hidden video camera. Over the past few years, these have produced a mountain of evidence of widespread abuse at truck-driving institutes, beauty colleges and other private, profit-seeking trade schools.

But with the laws that govern these schools scheduled to come to a vote on Wednesday in the House of Representatives, the industry's leaders are celebrating. Having faced the possibility of expulsion from the Federal student aid programs — a step toward extinction — the industry says it has reformed itself and preserved what it calls its rightful access to the aid programs.

"We won the war," said Stephen Blair, who as director of the Career College Association serves as the industry's chief lobbyist. "The rest of this is minor skirmishes."

Mr. Blair argues that most trade-school abuses have been corrected and that the pending legislation will fix those that remain. The measure's Congressional sponsors agree, calling it tough on bad schools and fair to good ones. The House legislation comes to the floor with the backing of the leadership and is similar in its broadest outline to measures that have already passed the Senate.

But critics, including some legal-services lawyers and Bush Administration officials, say that the legislation

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*Continued on Page A21, Column 4*

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## Congress Finally Acts

In spring 1992, legislation to renew the Higher Education Act reached its final stages, and ultimately garnered strong bipartisan support in both the House and Senate. When President Bush signed the bill on July 23, 1992, with Lamar Alexander by his side, he observed that “Lamar was telling me, and our own people in the White House have told me, that this was truly a bipartisan effort.”<sup>61</sup> Notably, Bush praised the legislation for containing “a number of valuable program integrity and loan default prevention provisions. In particular, these provisions will crack down on sham schools that have defrauded students and the American taxpayer in the past.” Bush proved prophetic. The 1992 HEA amendments included multiple provisions to improve the integrity of student aid programs, most of which applied to all schools but which overwhelmingly impacted for-profit schools.<sup>62</sup> The provisions included:

- For-profit institutions were limited to receiving 85 percent of their revenue from federal student aid programs. A similar market-value test for veterans educational benefits had required at least 15 percent of students to pay without federal aid, to ensure both that the tuition price was reasonable and not just based on the aid available, and that some students would choose to enroll in a for-profit institution even without federal aid.<sup>63</sup>
- Schools that offered more than 50 percent of their courses by correspondence, or where more than 50 percent of students were enrolled in correspondence courses, were barred from receiving federal student aid.<sup>64</sup>
- Institutions receiving Title IV funding were barred from paying commissions, bonuses, or incentive payments to recruiters, admissions officers, and other institutional representatives based directly or indirectly on their success in enrolling students or obtaining financial aid.
- Short-term vocational programs had to verify both student completion and job placement rates of at least 70 percent to be eligible for federal student aid.
- More than 50 percent of students had to have a high school diploma or GED at non-degree-granting institutions for the institution to remain eligible for Title IV aid.
- Institutions became ineligible for federal loans if their default rates exceeded 40 percent for a single year, or if their default rates exceeded 25 percent for three consecutive years.

Despite an industry campaign to weaken the law, the default provisions of the 1992 amendments led to widespread closures of for-profit schools. During fiscal years 1991 to 1994 alone, 890 schools were threatened with losing their eligibility to participate in the federal student loan program because their default rates exceeded 25 percent three years running. Two-third of those schools lost their eligibility and some 250 appealed the department’s calculations of their default rates.<sup>65</sup> By the time the full impact of the 1992 law ran its course, one report estimated that “900 institutions shut down as a result of [the law]—other

estimates were as high as 1,500.”<sup>66</sup> The impact of the new default rate cutoffs for federal aid eligibility was concentrated overwhelming among for-profit schools. In 1996, for example, *all* of the 203 schools that lost eligibility for student loan programs because of high default rates were for-profit schools.<sup>67</sup>

In some cases, however, the reforms also had perverse effects. Deferments and forbearances on student loans more than doubled from 1992 to 1996, from 5.2 percent to 11.3 percent, as institutions sought to skirt the new default rate requirements while maintaining eligibility for student aid.<sup>68</sup> Since borrowers in deferment or forbearance do not make payments on their loans, they could not be counted as defaulters. In effect, borrowers in deferments and forbearances reduced cohort default rates for an institution, without establishing any ability to repay their loans.

In response to new job placement and completion requirements for short-term vocational programs, career school certificate programs also took to “course stretching” to lengthen their courses beyond the minimum training and licensing hours needed to land a job, so that their programs could maintain eligibility for federal student aid. Numerous OIG investigations and audits found that course-stretching was particularly common in formerly short-term programs that trained people to become security guards, nurse assistants, manicurists, secretaries, and truck drivers.

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## For unscrupulous school owners, the ease of access to Pell Grant revenues was “a way to rob a bank without a gun.”

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The new default rate restrictions in the 1992 law also propelled a mass exodus of for-profit schools from the guaranteed student loan program to the Pell Grant program<sup>69</sup>—the latter of which provided scholarship grants to low-income students and thus had no default rate restrictions. Once a school was certified for the Pell program, it was given a PIN number and could make withdrawals on the Pell Grant awards allotted to its students, much like as at an ATM. For unscrupulous school owners, the ease of access to Pell Grant revenues was “a way to rob a bank without a gun.”<sup>70</sup> Or, as Senator Nunn said at hearings in the fall of 1993, the Pell Grant program provided “almost an invitation for people who are not honest to rip it off.”<sup>71</sup>

Still, the Bush administration’s goal of reducing defaults was achieved, fulfilling the aims of the default reduction initiatives first launched by the Reagan administration. The student loan default rate at for-profit schools fell from 36 percent in 1991<sup>72</sup> to 13 percent by the 1998–99 school year.<sup>73</sup> The number of students at proprietary schools who defaulted on their loans fell by more than two-thirds, from 319,000 students in 1988 to 99,000 students in 1993.<sup>74</sup> All in all, George H. W. Bush’s self-described “crack down” worked.

## Timeline of For-Profit Higher Education

Scroll through the below timeline to view the history of for-profit higher education.

# Notes

1. Quoted in the December 1987 Senate hearings, *Problems of Default in the Guaranteed Student Loan Program*, 122, <https://drive.google.com/a/tcf.org/file/d/0B7aqIo3eYEutbENMVUxvVTYwaXM/view?usp=sharing>.
2. Bruce N. Chaloux, “State Oversight of the Proprietary Sector,” in *Community Colleges and Proprietary Schools: Conflict or Convergence? New Directions for Community Colleges* 91 (Fall 1995): 89. The drumbeat of investigative exposes was so voluminous that in August 1988 the *New York Times* education editor Edward Fiske observed that “If computer programming colleges, truck driving academies and other profit-making trade schools did not exist, politicians and journalists would have to invent them. There is no more surefire way to stir up publicity than to visit Rosie’s College of Cosmetology or Fly-By-Night Aviation Academy and find an unemployed recent dropout who thought that the form he signed was a lottery ticket, rather than an application for a \$2,500 Guaranteed Student Loan that he would have to repay.” Edward B. Fiske, “Education; Lessons,” *New York Times*, August 24, 1988.
3. By 1980 the National Education Corporation (NEC) was trading on the New York Stock Exchange and owned eighty-nine schools. It began to disintegrate in 1990, and in 1995 a group of former executives purchased some remaining schools and called the new company Corinthian Colleges. Kevin Kinser, *From Main Street to Wall Street: The Transformation of For-Profit Higher Education: ASHE Higher Education Report* 31, no. 5 (Hoboken, N.J.: John Wiley & Son, 2006), 43-44.
4. Jessica Glenza, “The Rise and Fall of Corinthian Colleges and the Wake of Debt It Left Behind,” *The Guardian*, July 28, 2014, <https://www.theguardian.com/education/2014/jul/28/corinthian-colleges-for-profit-education-debt-investigation>.
5. Nancy Stancill, “Trade School Defends Recruiting of Homeless,” *Houston Chronicle*, May 31, 1989. <https://drive.google.com/file/d/0B7adHdBE6w3mbHV2Vi1TLUVDV1k/view?usp=sharing>.
6. Nancy Stancill, “Doing a Disappearing Act with Students’ Dreams: Texcel Trade Schools Apparently Cheated Thousands,” *Houston Chronicle*, May 21, 1989. <https://drive.google.com/file/d/0B7adHdBE6w3mNUZ4TXhvbDY4ckU/view?usp=sharing>.
7. Nancy Stancill, “Recruiting for Trade Schools: Promises Mislead the Jobless,” *Houston Chronicle*, June 11, 1989. <https://drive.google.com/file/d/0B7adHdBE6w3mOVc4X1JmdXdrV2s/view?usp=sharing>.
8. Major metropolitan newspapers that ran series of articles on career school abuses included, in chronological order: the *St. Petersburg Times* (April 20–22, 1986); *Newsday* (June 22, 1986); *Hartford Courant* (November 8, 1987); *Arizona Republic* (December 13, 1987); the *Chicago Sun-Times* “Bitter Lessons” series (January 3–8, 1988); *Cleveland Plain Dealer* (April 24–27, 1988); *Los Angeles Times* (June 16–17, 1988); and the *Houston Chronicle* (May 26, 27, June 1, 1989). Cited in Charlotte J. Fraas, “Proprietary Schools and Student Financial Aid Programs: Background and Policy Issues,” Congressional Research Service, 90-427 EPW, August 31, 1990, 21, fn. 33. In 1989, Newsweek financial advice columnist Jane Bryant Quinn also wrote two columns about abuses by for-profit schools; Jane Bryant Quinn, “Schools for Scandal,” *Washington Post*, April 30, 1989 (the company that owned the *Washington Post* then owned Newsweek, and Quinn’s column appeared in both publications); and Jane Bryant Quinn, “Shutting Down Scam Schools,” *Washington Post*, May 7, 1989.
9. *Abuses in Federal Aid Programs*, Senate Permanent Subcommittee on Investigations, Committee on Governmental Affairs, 102nd Cong., 1st Sess., Report 102-58, May 17, 1991, 11–12. <https://drive.google.com/file/d/0B7aqIo3eYEutQzRuX0JCQ3BIT3c/view?usp=sharing>.
10. Michael Winerip, “Billions for School Are Lost in Fraud, Waste, and Abuse,” *New York Times*, February 2, 1994. <https://drive.google.com/file/d/0B7aqIo3eYEutTkV4ci05dWozODg/view?usp=sharing>.
11. *Abuses in Federal Aid Programs*, Senate Permanent Subcommittee on Investigations, Committee on Governmental Affairs, May 17, 1991, 10. <https://drive.google.com/file/d/0B7aqIo3eYEutQzRuX0JCQ3BIT3c/view?usp=sharing>.

12. All Republican members who were on the Nunn committee during its hearings approved the committee’s May 1991 report, without dissent. When Senator Nunn later launched a second investigation of career school abuses in 1994, Senator Roth, proceeded to chair the committee hearings and investigation in 1995 after the Democrats lost control of the Senate.
13. Ibid.
14. James B. Thomas, Jr., Inspector General of the U.S. Department of Education in *Hearings on the Reauthorization of the Higher Education Act of 1965: Program Integrity*, Subcommittee on Postsecondary Education, House Committee on Education and Labor, 102nd Cong., 1st Sess., Serial No. 102-39, May 29, 1991, 272. <https://drive.google.com/file/d/0B7aqIo3eYEutcnNtaXRhMTI3bXM/view?usp=sharing>.
15. Ibid., 260–62.
16. Kevin Kinser, *From Main Street to Wall Street: The Transformation of For-Profit Higher Education: ASHE Higher Education Report* 31, no. 5 (Hoboken, N.J.: John Wiley & Son, 2006), 43.
17. Ibid., 44.
18. Jessica Glenza, “The Rise and Fall of Corinthian Colleges and the Wake of Debt It Left Behind,” *The Guardian*, July 28, 2014, <https://www.theguardian.com/education/2014/jul/28/corinthian-colleges-for-profit-education-debt-investigation>.
19. Fraas, “Proprietary Schools and Student Financial Aid Programs,” 17. <https://drive.google.com/file/d/0B7aqIo3eYEUTmxZMF9fa2JPb3c/view?usp=sharing>.
20. “Guaranty Agency Solvency: Can the Government Recover HEAF’s First-Year Liquidation Cost of \$212 Million,” Briefing Report to the Chairman, Committee on Labor and Human Resources, U.S. Senate, U.S. General Accounting Office, GAO/HRD-93-12BR, November 13, 1992, 1–6. <https://drive.google.com/file/d/0B7aqIo3eYEUTZFhfNDBIS0xjaE0/view?usp=sharing>.
21. Marge Roukema, “Letter to the Editor: Vocational Schools Train Millions for Life; We Need Regulation,” *New York Times*, October 6, 1990. <https://drive.google.com/file/d/0B7aqIo3eYEUTMHpweE9ZTDluVFU/view?usp=sharing>.
22. Jason DeParle, “Education; Trade Schools: Defaults and Broken Promises,” *New York Times*, Aug. 8, 1990. <https://drive.google.com/file/d/0B7aqIo3eYEUTA1hpaEozdks5aWs/view?usp=sharing>.
23. Terese Rainwater, “The Rise and Fall of SPRE: A Look at Failed Efforts to Regulate Postsecondary Education in the 1990s,” *American Academic* 2 (March 2006): 118. <https://drive.google.com/file/d/0B7aqIo3eYEUTMUISeDFWdHFqems/view?usp=sharing>.
24. Kenneth J. Cooper, “Taking the Stick to Student Loan Losses,” *Washington Post*, November 12, 1990. <https://drive.google.com/file/d/0B7aqIo3eYEUTOVg4a3VpM3JoQlk/view?usp=sharing>.
25. “Alexander: Obama Administration’s Gainful Employment Regulation ‘Not the Way to Weed Out Bad Actors,’” Press Release, Office of Senator Lamar Alexander, Johnson City, Tennessee, October 30, 2014. <http://www.help.senate.gov/chair/newsroom/press/alexander-obama-administrations-gainful-employment-regulation-not-the-way-to-weed-out-bad-actors>.
26. *Reauthorization of the Higher Education Act of 1965, Part 1*, Senate Subcommittee on Education, Arts, and Humanities, Senate Labor and Human Resources Committee, 102nd Cong., 1st Sess., S. Hrg. 102-221, Part 1, April 11, 1991, 674, 678. Pressed by Senator Thad Cochran (R-MS) about “scam schools” that “wouldn’t otherwise exist but for the Federal programs that pay students to attend those schools,” Alexander’s Deputy Secretary Ted Sanders acknowledged that he was “very, very concerned” about for-profit institutions that existed “solely for the purpose of qualifying students for financial aid [and] fix their tuition and costs based upon whatever it is that the combination of Pell grants and loans would actually afford for those institutions.” Ibid., 693–94. <https://drive.google.com/file/d/0B7aqIo3eYEUTeGHIN3ZGcXpVNUU/view?usp=sharing>.
27. The report continued, “Conversely, while students and taxpayers have paid dearly, unscrupulous owners, accrediting bodies, lenders, loan servicers, guaranty agencies, and secondary market organizations have profited handsomely, and in some cases, unconscionably.” *Abuses in Federal Aid Programs*, Senate Permanent Subcommittee on Investigations, Senate Committee on

Governmental Affairs, 102nd Cong., 1st Sess., Report 102-58, 6, 33.

<https://drive.google.com/file/d/0B7aqIo3eYEUTzRuX0JCQ3BIT3c/view?usp=sharing>.

28. Kenneth J. Cooper, "Curbing Student Loan Defaults: Senate Panel Proposals Target Abuses at For-Profit Trade Schools," *Washington Post*, May 20, 1991, A9 <https://drive.google.com/file/d/0B7aqIo3eYEUTMUp3TkNwNDdBaWM/view?usp=sharing>; Jason DeParle, "Panel Finds Wide Abuse in Student Loan Program," *New York Times*, May 21, 1991.

<https://drive.google.com/file/d/0B7aqIo3eYEUTznIxR1NiRVpaN2M/view?usp=sharing>.

29. *Hearings on the Reauthorization of the Higher Education Act of 1965: Program Integrity*, Subcommittee on Postsecondary Education, House Committee on Education and Labor, 102nd Cong., 1st Sess., Serial No. 102-39, May 21, 1991, 36, 39.

<https://drive.google.com/file/d/0B7aqIo3eYEUTcnNtaXRhMTI3bXM/view?usp=sharing>.

30. See Representative Joseph Kennedy's testimony in *Oversight on Reauthorization of the Higher Education Act of 1965*, Senate Committee on Labor and Human Resources, 102nd Cong., 1st Sess., S. Hrg. 102-1196, Boston, Massachusetts, April 3, 1991, 25.

<https://drive.google.com/file/d/0B7aqIo3eYEUT2k3QIVoRE1jWnM/view?usp=sharing>.

31. *Hearings on the Reauthorization of the Higher Education Act of 1965: Program Integrity*, May 21, 1991, 66.

<https://drive.google.com/file/d/0B7aqIo3eYEUTcnNtaXRhMTI3bXM/view?usp=sharing>.

32. *Ibid.*, 75.

33. *Ibid.*, 77.

34. *Ibid.*, 50.

35. *Ibid.*, 53.

36. *Ibid.*, 58-61.

37. *Ibid.*, 60.

38. *Ibid.*, 144.

39. *Ibid.*, 219-20.

40. *Ibid.*, 9-10.

41. *Ibid.*, 428-29.

42. *Ibid.*, 428.

43. *Ibid.*, 2.

44. *Ibid.*, 62.

45. *Ibid.*, 10.

46. *Ibid.*, 2.

47. *Abuses in federal student grant programs: Proprietary School Abuses*, Hearing before the Senate Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, 104th Cong., 1st sess., July 12, 1995, 38. Longanecker went on to reassure Senator Nunn that the Education Department had been able to withstand the pressure from lawmakers over removing for-profit schools from Title IV eligibility. <https://drive.google.com/file/d/0B7aqIo3eYEUTazBxMUpPbGxhS1E/view?usp=sharing>.

48. Jason DeParle, "Trade Schools Near Success as They Lobby for Survival," *New York Times*, March 25, 1992.

<https://drive.google.com/file/d/0B7aqIo3eYEUTa2E1akxyTkFqLUE/view?usp=sharing>.

49. *Ibid.* Given these bipartisan sympathies, it is no surprise that the for-profit industry's contributions to lawmakers have often crossed party lines, despite the assumption today that for-profit colleges overwhelmingly favor Republican lawmakers. Through much of the early 1990s, the for-profit sector's "tradition" was to give "more heavily to Democrats," as the *Chronicle of Higher Education* stated in 1994. In the first six months of 1994, the for-profit sector and its employees gave \$102,000 to congressional incumbents for the 1994 elections, 72 percent of which went to Democrats. (Jim Zook, "Trade Schools Increased Gifts as House Debated Aid Measure," *Chronicle of Higher*



*Education*, September 14, 1994. <https://drive.google.com/file/d/0B7aqIo3eYEUTVGRXemxUX3VZTnc/view?usp=sharing>) By 2016, the industry's contributions to candidates had exactly flipped, with 72 percent of contributions in the first eight months of 2016 going to Republicans running for Congress. (Meredith Kolodner, "For-profit colleges stay quietly on offense," *Hechinger Report*, Oct. 12, 2016. <http://hechingerreport.org/profit-colleges-stay-quietly-offense/>).

50. In August 1989, Robert Atwell, the head of the American Council of Education (ACE), then the umbrella association of traditional colleges (it now includes for-profit members), floated the idea of separate programs. The concept was supported by the president of the National Association of Independent Colleges and Universities (the trade association for private nonprofit institutions) and many university presidents. Robert H. Atwell, "Accreditation: Putting Our House in Order," *Academe* 80, no. 4 (July-August 1994), 10.

51. See Stephen Blair's statement in Thomas J. DeLoughry, "Colleges Prepare for Two-Year Review of Federal Programs in Higher Education," *Chronicle of Higher Education*, October 25, 1989, A27. In an opinion piece in the *New York Times*, DePaul University president Robert Bottoms supported ACE's proposal to create a separate funding stream for career schools. Bottoms lamented that "When Congress decided to include the profit sector [in the Pell Grant program] back in 1976, who would have believed that in slightly more than a decade, its students would borrow more money than all other college students in the country combined? And at a default rate over four and a half times as great!" (Robert Bottoms, "Sure We Need Beauticians," *New York Times*, September 17, 1990, A23. <https://drive.google.com/file/d/0B7aqIo3eYEUTM1JQdzY0bGRJTEk/view?usp=sharing>) In a Letter to the Editor, Stephen Blair wrote that Bottom's proposal "belittles the education provided by trade and technical schools and demeans the millions of Americans not college educated who make vital and important contributions to our nation. Mr. Bottoms implies that the two million students who annually attend private trade and technical schools are less important than those who chose elite private colleges and universities." (Stephen J. Blair, "Letter to the Editor: Vocational Schools Train Millions for Life," *New York Times*, October 6, 1990. <https://drive.google.com/file/d/0B7aqIo3eYEUTUHpzYnNGaGRBbFk/view?usp=sharing>).

52. See Michael D. Parsons, Power and Politics: Federal Higher Education Policymaking in the 1990s, 113, 176–77, 183. Sarah Flanagan, an aide to Senator Claiborne Pell (D-RI), chairman of the Subcommittee on Education, Arts and the Humanities told Education Week as early as February 1989 that subcommittee members were "not interested in [Atwell's] proposal [to create a separate funding stream for proprietary schools]. Most trade schools in this country do a very good job. It's very easy to take potshots because of the bad publicity of a few schools." (Mark Walsh, "Cavazos Cautions Trade Schools Over Defaults," *Education Week*, February 15, 1989. <http://www.edweek.org/ew/articles/1989/02/15/08170045.h08.html?tkn=UOSFvRNp2ZNV%2BpvuJcSKynMTqi5AdpAqF46s>).

53. Kenneth J. Cooper, "Hill Chairman Wants to Reshape Student Aid; Time Has Come for Major Redesign of Federal Loan and Grant Programs, Rep. Ford Says," *Washington Post*, February 4, 1991, A9. <https://drive.google.com/file/d/0B7aqIo3eYEUTRmRBdFIPQUYzNm8/view?usp=sharing>.

54. In his October 21, 1991 letter to Chairman Ford, Secretary Alexander stated at p.3 that he supported "a variation on the provisions [of Ford's HEA bill, which eliminated accreditation], namely, the elimination of accreditation as an element of institutional eligibility for vocational programs (not just vocational schools) for all HEA programs, and the retention of accreditation as an element of institutional eligibility for collegiate programs. The State role in determining institutional eligibility should be expanded for all programs (not just Title IV programs) and sectors, but with a particular emphasis on vocational programs, which would benefit most from closer oversight." For coverage of Alexander's letter, see Thomas J. DeLoughry, "Lawmakers Clash Over Two Versions of Education Bill: House and Senate move closer to passing Higher Education Act," *Chronicle of Higher Education*, October 30, 1991. Alexander's October 21, 1991 letter to Chairman Ford with his recommendation to end accreditation for vocational programs is also summarized in Jeffrey C. Martin, "Recent Developments Concerning Accrediting Agencies in Postsecondary Education," *Law and Contemporary Problems* 57, no. 4 (1994): 139. <https://drive.google.com/file/d/0B7aqIo3eYEUTY1A4RDA1RmNZNG8/view?usp=sharing>.



55. Letter from U.S. Secretary of Education Lamar Alexander to Congressman William D. Ford on H.R. 3553, October 21, 1991, Appendix A, 17–18. <https://drive.google.com/file/d/0B7adHdBE6w3mM1pWbGp2eDd6UTQ/view?usp=sharing>.
56. See Richard W. Moore, “The Illusion of Convergence: Federal Study Aid Policy in Community Colleges and Proprietary Schools,” in *Community Colleges and Proprietary Schools: Conflict or Convergence?* no. 91 (Fall 1995): 89. <https://drive.google.com/file/d/0B7aqIo3eYEUtaVhQdEkzdXd5V00/view?usp=sharing> Moore writes that “The impetus for [the SPREs] was the increasing misuse of federal aid, particularly by the proprietary sector . . . . Part of the solution was the establishment of the SPREs as a ‘weapon to attack fraud and abuse,’ according to David Longanecker, Assistant Secretary for Postsecondary Education” in the Clinton administration.
57. Rainwater, “The Rise and Fall of SPRE,” 107–08, 110. <https://drive.google.com/file/d/0B7aqIo3eYEUtMUISeDFWdHFqems/view?usp=sharing>.
58. See section 494C(d) of the 1992 HEA Amendments. Cited in “Department of Education, 34 CFR Part 667, State Postsecondary Review Program, Notice of Proposed Rulemaking,” *Federal Register* 59, no. 15 (January 24, 1994): 3606.
59. Department of Education, 34 CFR Part 667, State Postsecondary Review Program, Final regulations,” *Federal Register* 59, no. 82 (April 29, 1994): 22295, 22306. <https://www.gpo.gov/fdsys/pkg/FR-1994-04-29/html/94-10147.htm>.
60. Among the powers granted to states, state education agencies could assess whether tuition and fees were excessive, given the likely earnings for a graduate, for any pre-baccalaureate vocational programs that hit one of the new triggers for state review. Ibid.
61. Bush departed from his prepared statement to praise the bipartisan nature of the legislation. See the video of the signing of the legislation at <https://www.c-span.org/video/?27351-1/higher-education-act-signing-ceremony>.
62. A history of career education developed for the Career College Association and the McGraw-Hill Companies Career College Division states that “Taking aim at private career education, the Higher Education Act was reauthorized in July of 1992 with restrictions effectively geared toward restricting the private career sector.” (Imagine America Foundation, *In Service to America: Celebrating 165 Years of Career and Professional Education* [Washington, D.C., and New York: Career College Association, the McGraw-Hill Companies Career College Division and Studio Montage, 2007], 101, <http://imagine-america.org/pdfs/history-book-web.pdf>.)
63. Congresswoman Maxine Waters, the nemesis of the proprietary school sector, sponsored the amendment to apply an 85-15 requirement to cover Title IV student aid programs. Waters’ amendment passed the House in a voice vote in March 1992 during the floor debate over the House HEA bill. (“Congress Expands College Loan Eligibility,” *CQ Almanac* 1992, 48th. ed., 438–54.)
64. The Higher Education Technical Amendments of 1993 allowed the Secretary of Education to waive the 50 percent eligibility requirements for correspondence courses for “good cause” for an institution that offered a two-year associate-degree or a four-year bachelor’s degree. However, Secretary Riley interpreted the good cause exception narrowly, limiting it to degree-granting programs where students enrolled in the institution’s correspondence courses received no more than five percent of the Title IV HEA program funds received by students at the institution. (“Institutional Eligibility Under the Higher Education Act of 1965, as Amended: Final Regulations” *Federal Register* 59, no. 82 [April 29, 1994]: 22329.)
65. U.S. General Accounting Office, “Student Loan Defaults: Department of Education Limitations in Sanctioning Problem Schools,” Report to the Ranking Minority Member, Subcommittee on Human Resources and Intergovernmental Relations, House Committee on Government Reform and Oversight, GAO/HEHW-95-99, June 1995, 4. <https://drive.google.com/file/d/0B7aqIo3eYEUTDN2SFNUV2dGWnM/view?usp=sharing>.
66. Imagine America Foundation, *In Service to America: Celebrating 165 Years of Career and Professional Education*, 103.
67. “Reauthorization of 1998 Higher Education Act,” Exec. Summary, Recommendations for reauthorization, Office of Inspector General, U.S. Department of Education, 15, <http://www2.ed.gov/about/offices/list/oig/audittrpts/reauth98.html>.

68. Cited in testimony of Thomas Carter, Deputy Inspector General, U.S. Department of Education in *Enforcement of Federal Anti-Fraud Laws in For-Profit Education*, Hearing before the House Committee on Education and the Workforce, 109th Cong., 1st sess., Serial No. 109-2, March 1, 2005, 37. <https://www.gpo.gov/fdsys/pkg/CHRG-109hhrg99773/html/CHRG-109hhrg99773.htm>.
69. From 1983 to 1992, “95 schools left the [guaranteed] student loan program (either voluntarily or involuntarily) and became exclusively Pell Grant participating schools. In the two years from 1992 to 1994, 509 schools left the loan program and became exclusively Pell Grant schools, a 535 percent increase.” More than half of the 509 schools that switched to Pell-only status in that two-year period, or 271 schools, were for-profit schools. (*Abuses in Federal Grant Programs: Proprietary School Abuses*, Hearing before the Senate Permanent Subcommittee on Investigations, Committee on Governmental Affairs, 104th Cong., 1st Sess., S. Hrg. 104-477, July 12, 1995, Appendix, Staff Statement, 63.) <https://drive.google.com/file/d/0B7aqIo3eYEutaUJKVGJFQkdVM00/view?usp=sharing>.
70. Michael Winerip, “Billions for School Are Lost in Fraud, Waste, and Abuse,” *New York Times*, February 2, 1994.
71. Ibid.
72. U.S. General Accounting Office, “Higher Education: Ensuring Quality Education from Proprietary Institutions,” GAO/T-HEHS-96-158, June 6, 1996, 2. <https://drive.google.com/file/d/0B7aqIo3eYEutYWJvRkIUUFFkbmc/view?usp=sharing>.
73. See “Trends in Higher Education: Figure 12. Federal Student Loan Default Rates by Sector over Time,” College Board, October 2015, <https://trends.collegeboard.org/student-aid/figures-tables/federal-student-loan-default-rates-sector-over-time#Key%20Points>.
74. During the same time period, 1988 to 1993, the total number of proprietary schools nationwide declined by almost 900 schools, from 4,435 to 3,575 schools. See the testimony of Assistant Secretary for Postsecondary Education David Longanecker in *Department of Education Oversight: Gatekeeping*, Hearing before the Subcommittee on Human Resources and Intergovernmental Relations, House Committee on Government Reform and Oversight, 104th Cong., 2nd sess., June 6, 1996, 84. <https://drive.google.com/file/d/0B7aqIo3eYEutOHdQb0l6cHc3MnM/view?usp=sharing>.



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